ANNUAL
REPORT
2006
WELL
GROUNDED

ENDEV
ENERGY INC.

Corporate Profile

Endev Energy Inc. is a natural gas weighted, low to medium risk, exploration and production company, headquartered in Calgary, Alberta. The management team has used their extensive leadership, technical and business expertise to develop a new strategy to grow the Company and build value for Endev's shareholders. Endev's two core properties are located at Majorville, southeast of Calgary, and Drumheller, northeast of Calgary. Both these properties feature tight shallow gas as well as deeper conventional oil and gas opportunities. At Majorville, which is the largest producing area, Endev owns significant infrastructure.

Approximately 80 percent of both Endev's production and proved reserves are natural gas.

Our strategy is to optimize operations on our shallow gas plays with the production providing a base of cash flow to support the drilling of higher reward opportunities in the future. These new venture opportunities will focus on southern and central Alberta and western Saskatchewan.

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Annual General Meeting

The Annual General Meeting of Shareholders of Endev Energy Inc. will be held at the Calgary Petroleum Club, Viking Room, 319 - 5th Avenue SW, Calgary, Alberta, on May 15, 2007 at 3:00 p.m. (Calgary time).
All shareholders and interested parties are invited to attend.

Well Grounded · Endev Energy Inc.'s expanded asset base, strategy for growth and drilling successes in 2006 have strongly positioned the company for exploration and production success in 2007. Endev has supplemented its substantial shallow gas properties with deeper oil and gas prospects in southern Alberta, deeper oil prospects in east-central Alberta and gas prospects in southwest Saskatchewan to create a balanced, flexible and sustainable inventory of drilling opportunities. Endev will continue to build on its very successful Cretaceous Mannville drilling program in 2007, applying its expertise to its ongoing growth through the drill bit. Endev is well-grounded and well-positioned for the future.

ENDEV
ENERGY INC.

Highlights

December 31	2006	2005	2004
Financial *($ millions, except per share amounts)*			
Gross revenue	61.1	71.5	52.3
Funds from operations	32.7	44.2	27.7
Basic per share	0.37	0.50	0.32
Diluted per share	0.36	0.49	0.31
Net income	2.7	12.0	0.9
Basic per share	0.03	0.14	0.01
Diluted per share	0.03	0.14	0.01
Capital expenditures, net	59.5	40.4	34.0
Net debt	54.7	28.2	32.2
Operations			
Daily production			
Natural gas *(mcf)*	18,006	18,558	15,606
Natural gas liquids *(bbl)*	84	96	99
Crude oil *(bbl)*	679	589	800
Total production *(boe @ 6:1)*	3,764	3,778	3,500
Average sales price			
Natural gas *($/mcf)*	6.65	8.51	6.55
Crude oil *($/bbl)*	63.31	45.95	40.55
Netback per boe (6:1) *($)*			
Petroleum and natural gas revenues	44.49	51.88	40.87
Royalties, net of ARTC	6.96	8.77	7.87
Operating expenses	8.84	6.79	7.03
Transportation	0.95	0.95	0.98
Operating netback	27.74	35.37	24.9

2006 was a year with a slow start and a strong finish with respect to Endev's production. We set a new course for the Company while addressing the challenges of a changing industry environment. We made our initial 2006 budget plans based largely on exploiting our traditional shallow gas property at Majorville – the principal asset that the Company relied upon for growth. The plan called for drilling 150 shallow gas wells out of 175 total wells and spending $50 million. Concurrently, we were making considerable effort to build an opportunity inventory of deeper drilling locations in the Cretaceous – Mannville rocks and actively pursuing farm-in opportunities in several new areas. At the same time, we were also experiencing significant cost increases from service providers, which we saw as a threat to the economics of shallow gas operations. We anticipated strong production growth in the third and fourth quarters from our Mannville activities. As it turned out, the stronger production levels and increased pricing in the fourth quarter helped to produce improved netbacks and reduced debt to cash flow by year end.

In the first half of the year, rapidly rising service costs and softening gas prices for natural gas began to significantly impair the economics of shallow gas operations. Eighty percent of Endev's production is natural gas, so key metrics such as gross revenues and net income reflected the 22 percent drop in natural gas prices. By mid year, however, our exploration team had built a solid inventory of Mannville drilling locations which offered robust economics and a new source of production and reserve growth. Given this inventory, we restructured our budget plans by eliminating 75 shallow gas wells, expanding the budget to $55 million and redirecting 40 percent of the funds to Mannville drilling and new exploration opportunities. These changes were a deliberate effort to focus spending on the most economically attractive investments and to broaden the Company's base of operations, making it less reliant on the traditional shallow gas operations. Our efforts to broaden our opportunity inventory was furthered by two

new farm-in areas at Provost in eastern Alberta which is oil prone, and at Admiral in southwestern Saskatchewan which is gas prone.

The Company enjoyed success in the new opportunities it undertook in 2006. In our Mannville drilling program at Majorville we have drilled a total of 10 wells (10 net) of which six were oil, three were gas and one was a dry hole. This program had a success rate of 90 percent and by year end had added approximately 900 boe per day of natural gas and light oil to the Company's production base. We are adding production in a cost-effective manner which is particularly important given rising costs for industry players. In our new farm in areas we have also enjoyed encouraging results. At Provost, our first two exploratory wells discovered medium-light gravity oil and are on production. We entered the option earning phase in late 2006 with several wells planned for the first quarter of 2007 and expect to be in a position by mid-year to determine if Provost can become a new core producing area for Endev. At Admiral, we drilled 10 of 15 earning wells and tested five of these wells with encouraging results. We expect to complete earning these lands in the second quarter of 2007. Should the future drilling and testing be successful this could represent a large gas development with multiple years of drilling and exploitation.

WELL GROUNDED

We believe we have the base assets, the core team and the financial and operating structure on which to securely base our future growth.

While we are pleased with our success in drilling the new opportunities, our shallow gas property at Majorville experienced negative technical revisions. The revisions to our shallow gas reserves stemmed from poorer well performance for some areas and in other cases, from interference from new wells placed on production. The net result was a downward technical revision of 10.5 percent to proven plus probable reserves, all of which was in the shallow gas area. With time, as the new wells mature and decline rates provide evidence of flattening, it may be possible to re-instate a portion of those reserves. The Majorville shallow gas operation is a premium tight gas resource that, with time and appropriate investment, should demonstrate many years of productive life.

These reduced shallow gas reserves, although disappointing, do confirm the wisdom of the new direction we set in mid year to expand our operations base and redirect funds to those new activities.

The industry environment will continue to present challenges. A significant challenge for all industry players is to reduce the cost base of field operations. We see some evidence that the service providers are working with producers to lower the costs and expect that by mid year we will see significantly reduced costs and improved availability of services.

In the fiscal and regulatory area, there are initiatives to review government levies for the industry. This is a concern for the industry given the current challenges of volatile commodity prices, higher debt levels, higher costs and the recently proposed tax status changes for income trust investors. In addition, there are growing concerns about green house gas emissions and other environmental issues. These are all matters which must be dealt with in a thoughtful way and in a manner which considers the needs of all stakeholders. We will continue to monitor these factors and respond appropriately.

A key factor in our continued success is the work we do with the people and communities where Endev operates. We have a fundamental belief in supporting the communities in which we operate and we were pleased to make a financial contribution to two of those communities. During the year, the Company provided financial support for the new library at Milo and the new recreational facility at Lomond, Alberta. Both of these communities are central to our key Majorville property and many of our employees live and spend time in those communities.

The outlook for Endev is bright despite all of the challenges mentioned. We have placed our future growth on a solid footing and have built an inventory to support several years of future drilling. Our Mannville program continues to be a success and we expect that success to continue in 2007. We have encouraging results from the new farm-in areas at Provost and Admiral, and look to add one or more new farm-in areas in 2007. Out of these farm-in initiatives we expect to generate one or two new core producing areas. Moving forward we are focused on managing costs and maintaining financial flexibility while building a broad base of operations. Our plans for 2007 include a capital expenditure program of $40 million, the drilling of 105 gross (79 net) wells and an average daily production of 4,200 to 4,400 boe per day for a 15 percent increase in average daily production. We are determined to build upon our recent successes in our new growth areas while keeping our focus on managing costs and improving profitability.

In closing, I want to extend a sincere thank you to all the Endev employees for their support during 2006. I am extremely proud of the way this team was able to respond to our shift in strategy during the year; they displayed teamwork, efficiency and effective communication and I attribute our strong results in the second half of the year to their efforts. I also would like to thank our Board of Directors for their guidance through a year of change for Endev. I look forward to the continued support of our Board, employees and you, our shareholders, through what promises to be an exciting year in 2007.

On behalf of the Board of Directors,

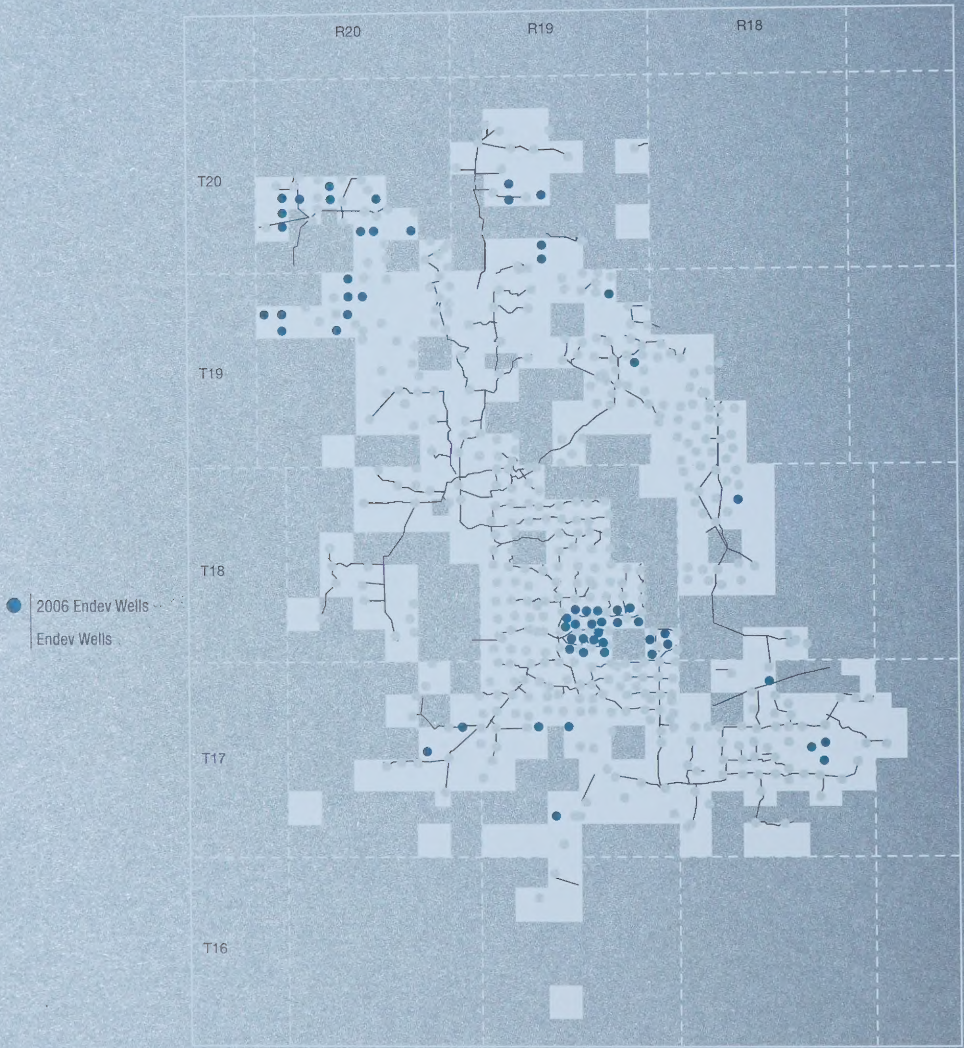
Cameron MacGillivray,

President and Chief Executive Officer
March 9, 2007

The year 2006 was a year of growth and evolution for Endev. In the second half of the year, in response to softening gas prices, the Company shifted focus away from its traditional shallow gas drilling and concentrated resources on exploring deeper Mannville prospects for both oil and gas. This change in direction was an operational and strategic success for the Company. Over the course of the year, Endev drilled 101 gross wells with a 99 percent success rate – well above industry standards – and added enough new locations to its inventory of drilling opportunities to sustain several years of drilling. Endev's diversification efforts resulted in 1,100 boe per day in production from Mannville wells and have left the Company in an enviable position. Endev can strategically tailor its drilling program to oil or gas to capitalize on commodity prices and, depending on prevailing market conditions, the Company can choose between shallow and deeper drilling. The Mannville drilling program has been highly successful at Majorville and may lead as well to the development of a new core area at Provost. All in all, Endev exited the year with an expanded and diversified asset base managed by a skilled, experienced team.

Operations: Majorville

Located 125 kilometers southeast of Calgary, Majorville is Endev's core property.



Majorville	GROSS	NET
Wells drilled in 2006	79	68.5
Total Acreage (acres)	128,483	103,229
Total Undeveloped Land (acres)	18,327	15,377
Drilling Success Rate (%)	99	
Working Interest (%)		87
Average Production (boe/d)		2,600

The Majorville property is a large, contiguous land base. The Company owns and operates a considerable portion of the infrastructure in the area, including 500 kilometres of natural gas pipelines and five large compression-dehydration facilities. The area features low risk, tight shallow gas plays as well as significant medium risk/ higher reward Mannville oil and gas potential.

Operations Drumheller

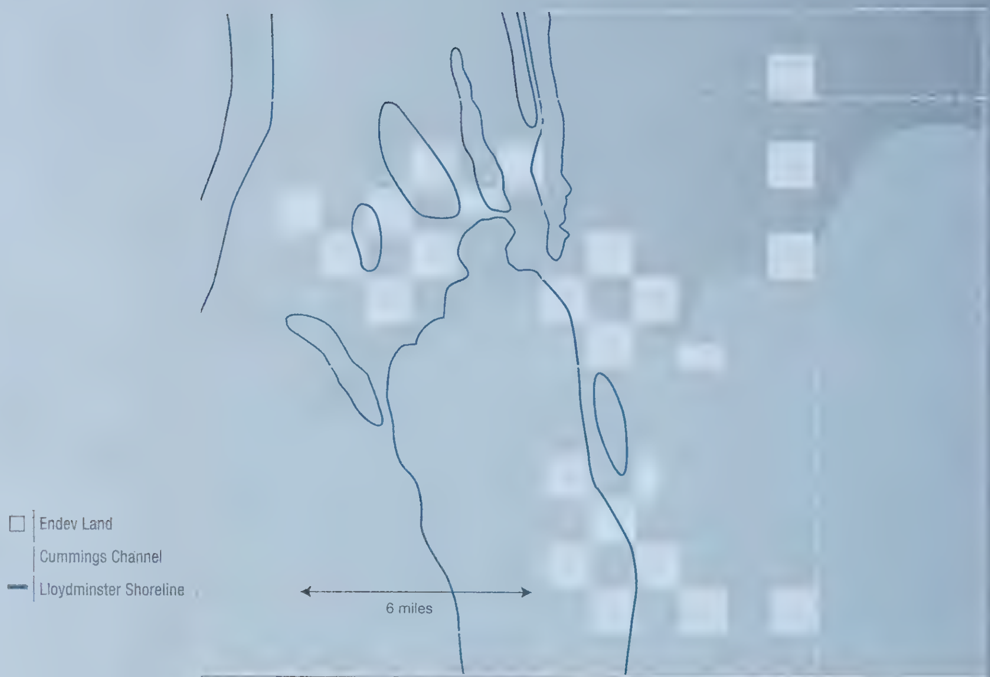
Drumheller is located 100 kilometers northeast of Calgary and is a low to medium risk exploration and exploitation area.

	GROSS	NET
Total Acreage (acres)	30,097	14,479
Total Undeveloped Land (acres)	12,356	7,386
Wells drilled in 2006	4	1.1
Drilling Success Rate (%)	100	
Working Interest (%)		28
Average Production (boe/d)		275

With similar geological features to Majorville, Drumheller provides the opportunity for Endev to leverage its expertise of developing tight, sweet, shallow natural gas and provides a stable base of production from which higher risk/reward exploration is funded. The Company exited 2006 producing 350 boe per day from the two oil wells that came on-stream in late December.

Provost

Provost is an oil-prone area with stacked Mannville potential located in east central Alberta.



	GROSS	NET
Access to Acreage (acres)	13,019	13,019
Lands Earned in 2006 (acres)	351	351
Wells drilled in 2006	2	2
Drilling Success Rate (%)	100	
Working Interest (%)		100
Average Production (boe/d)		5

The Provost farm-in agreement provides Endev with access to 13,000 net acres with a 100 percent working interest. In the fourth quarter, Endev commenced production from two oil wells at Provost and exited the year producing 50 boe per day.

Operations: Admiral

The Company's primary focus at Admiral is lower risk exploration of an aerially extensive shallow gas play.

	GROSS	NET
Access to Acreage (acres)	48,960	24,480
Wells drilled in 2006	10	10
Drilling Success Rate (%)	100	
Working Interest (%)		100
Average Production (boe/d)		0

The Admiral area farm-in agreement originally provided Endev with access to 75,000 acres of undeveloped lands. After high-grading, Endev can now earn a 50 percent working interest in approximately 50,000 acres, which includes rights in all zones. There currently is no production from the wells drilled, however, infrastructure exists nearby that can be used to bring on production in 2007.

MAJORVILLE

Majorville is Endev's cornerstone property. Endev's activity in the area is supported by 340 kilometers of proprietary 2-D seismic, 210 square kilometers of 3-D seismic and the Company owns and operates a significant portion of infrastructure in the area.

In 2006 Endev enhanced its already extensive infrastructure by installing an additional 5 mmscf per day compressor at our Majorville 12-36-18-20W4M facility. This new compressor accommodated incremental production from the 2005 and 2006 drilling programs while also allowing Endev to reduce its operating costs by redirecting gas away from a third-party facility where the Company was paying processing fees. Endev also looped a portion of its gathering system. The resulting reduction in pressure losses allowed the Company to handle additional gas throughput. Endev also installed a separate pipeline to solely handle the new Mannville gas production to avoid backing out existing shallow gas.

In the past Endev had primarily targeted sweet natural gas in shallow zones such as the Belly River, Milk River and Medicine Hat formations. This year, in keeping with the Company's goal of diversifying into higher risk, higher reward drilling, Endev successfully launched a successful 10-well Mannville drilling program at Majorville. Development of this deeper drilling program is discussed in greater detail in the New Ventures portion of this review.

The Company finished the year with a total of 69 gross (58.5 net) shallow gas wells, tieing-in a total of 87 wells, with some carryovers from previous years' drilling.

DRUMHELLER

In 2006 the Company participated in drilling four Cretaceous Mannville wells. Two wells were cased for oil and two were cased for gas for an overall success rate of 100 percent. Endev working interests on these wells ranges from 17 to 60 percent. All of these new wells were producing by year end. The Company also participated in equipping and tying-in a gas well that previously had been standing for several years.

NEW VENTURES

Mannville

The Cretaceous Mannville program at Majorville was a major focus for New Ventures activities in 2006. The Mannville drilling program targeted both oil and gas prospects. Endev drilled 10 gross (10.0 net) Mannville wells in 2006 resulting in six wells cased for oil, three wells cased for gas and one dry hole, for an average success rate of 90 percent. Since we began drilling the Mannville program at Majorville in the fourth quarter of 2005, we have drilled a total of 14 wells resulting in eight wells cased for light oil (34° API), five wells cased for gas and one dry hole for an overall success rate of 93 percent which is considerably better than industry average success rates in the area

Provost Oil Program

In 2006 Endev completed two farm-in transactions, the first of which was in the Provost area of east central Alberta. Provost is an oil-prone area with multi-zone Mannville potential where the Company's exploration team has many years of exploration experience and a strong record of success. After an additional 7.7 square kilometers of 3-D seismic was shot, Endev drilled two exploration wells with 100 percent success at a cost of $1.5 million. The Company has a 100 percent working interest in the wells.

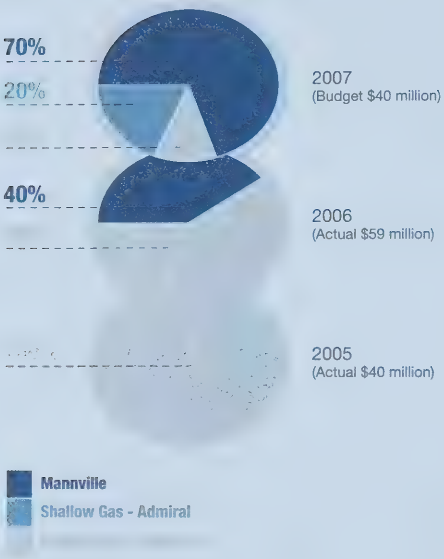
Admiral Shallow Gas Program

In keeping with its strategy of diversifying and developing additional core areas, Endev invested in a second farm-in transaction in the Admiral area of southwest Saskatchewan. At Admiral Endev can earn a 50 percent interest in all zones on up to 50,000 acres. The primary focus at Admiral is an aerially extensive shallow gas horizon – which allows the Company to capitalize on is shallow gas expertise – but the area also features deeper Cretaceous targets. After high-grading the initial lands available, Endev began drilling its farm-in gas program in the third quarter of this year. By year end, the Company had drilled 10 wells and was encouraged by the early results.

Key Joint Venture Program

At Pine Creek and Elmworth – two areas in northwest Alberta – Endev lands were strategically farmed-out to industry partners to spread the risk and cost of drilling. Under the farm-out agreements, the Company holds up to 40 percent working interests in both of the areas. In 2006, a total of four multi-zone wells with Cretaceous potential were farmed-out. Another well, previously farmed-out, was put on production. Endev participated in an additional well at Elmworth. All six of the wells were successful.

Capital Program Allocation



In 2007, 90 percent of the Company's capital ...ted to the New Ventures ...ents an enormous shift from ...f the previous two years.

OUTLOOK

In 2006, the refocus to New Ventures programs created 1,100 boe per day of new Mannville production from scratch. This new production has an oil to gas ratio of 35 percent oil and 65 percent gas. Based on this success, the Company has set aside an estimated $40 million to drill 105 wells in the coming year. With 90 percent of the of the budget allocated to the New Ventures program and only 10 percent to Majorville shallow gas the 2007 budget clearly illustrates the refocused direction of the Company.

In 2007 the New Ventures program will continue to focus capital on three key areas – Admiral, Provost and Mannville drilling at Majorville. Roughly 49 percent of the New Ventures budget has been allocated to Majorville, while 27 percent has been allocated to Admiral and 16 percent will go towards development of Provost. In addition, the 2007 New Ventures program will focus on identifying land for potential future core areas.

At Majorville, where some of the current oil wells tested at over 300 barrels per day, further delineation and exploration drilling will be carried out to better establish the potential of the oil pools. The Mannville gas pools will be another key area of interest given that two recent Mannville gas wells have been tested at rates of two to three mmcf per day. Under controlled conditions one of these wells produced up to 1.9 mmcf per day. Further exploration and development drilling to define the Mannville gas pools will also be carried out in 2007. The 2007 capital allocation for this area is roughly $18 million for an estimated 23 wells.

The new oil pools at Provost will be another key focus in the coming year. The Company will execute additional development drilling and exploration in the area, and intends to evaluate the potential for a full-scale pool development using enhanced waterflood recovery dependent on the continued success of the exploration work. An estimated $5.7 has been budgeted for the drilling of eight wells at Provost in 2007.

At Admiral, further exploration and step-out drilling is scheduled, with the aim of establishing the total resource potential and economics for the large aerially-extensive shallow gas pool present there. Assuming continued exploration success, plans are in place to spend roughly $9.6 million to drill an estimated 58 wells in the area in the coming year.

Endev's growth strategy for the coming year will be based primarily on growth through the drill bit, but Endev will also continue to explore opportunities for acquisitions that will strategically expand its land base. The Company sees significant opportunities to optimize operations on its shallow gas plays, and envisions production from the shallow assets forming a stable source of cash flow which will support the Company's continued exploration into new areas and plays.

Community Involvement

Anniversary Celebrations, Milo and Lomond, Alberta · … lopment projects at …

… oved services and … that will … as well …

2006 ANNUAL REPORT

ENDEV


Celebrating
90 years
Celebrating
90 years

Reserves Summary

Endev received the results of an independent engineering evaluation of its oil and gas reserves conducted by GLJ Petroleum Consultants Ltd. (GLJ) effective December 31, 2006. This evaluation was prepared in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities (NI 51-101). This instrument adopted by the Canadian Securities Administrators sets out standards of disclosure for oil and gas activities and mandates the application of evaluation standards defined in the Society of Petroleum Evaluation Engineers (SPEE) Canadian Oil and Gas Evaluation Handbook (COGEH).

In 2006, development activity (exploration discoveries, drilling extensions and infill drilling) added 1.1 mmboe to Endev's proved plus probable reserves, replacing 81 percent of actual production for the year. These additions mostly resulted from Endev's highly successful Mannville drilling programs carried out at Majorville, Drumheller, Pine Creek and Elmworth. Technical revisions negatively impacted Endev's proved plus probable reserves by 1.2 mmboe. These technical revisions were largely the result of production performance issues involving a number of Endev's Majorville shallow gas wells that came on-stream in late 2005 and in 2006. These wells have underperformed and their assigned reserves were revised downward accordingly.

Endev recognized the challenges currently facing shallow gas development and in 2006 a greater emphasis was placed on exploring for, and developing, deeper geologic targets, specifically the Mannville horizon. The success of the program is reflected in the above mentioned reserves increases.

On a proved plus probable basis, finding and development costs were $40.27 per boe based on total exploration and development costs of $44.3 million and 1.1 mmboe of reserve additions. On a proved basis, finding and development costs were $53.69 per boe based on total exploration and development costs of $49.3 million and reserve adds of 0.9 mmboe. These finding and development costs reflect the fact that Endev invested significant capital in 2006 to drill, complete and/or equip wells

to realize reserves already booked in prior years. In addition, many of the properties that Endev developed in 2006 are exploratory in nature and are therefore front-end loaded with capital costs. Endev expects the finding and development cost for those properties to decrease over time.

Highlights from the reserves report include:

- On a year over year basis, proved producing reserves increased nine percent.
- Total proved reserves are 6.7 mmboe and total proved plus probable are 9.6 mmboe.
- In 2006, development activity added 0.9 mmboe of proved reserves and 1.1 mmboe of the proved plus probable reserves.
- The net present value of the total proved plus probable reserves is $152 million, discounted at 10 percent, forecast prices, before tax.
- Endev's holdings outside of the Majorville shallow gas assets currently account for approximately 42 percent total proved plus probable reserves. This is in keeping with the corporate mandate of diversifying the reserves portfolio by placing less reliance on shallow gas over time.
- Reserve life index (RLI) is 5.0 years for on a total proved basis and 7.0 years on a proved plus probable basis.

SUMMARY OF OIL AND GAS RESERVES (Company Gross)

Forecast Prices and Costs

As at December 31, 2006

Reserves Category	Light and Medium Crude Oil (mbbl)	Heavy Oil (mbbl)	Natural Gas Liquids (mbbl)	Natural Gas (mmcf)	Total (mboe)
Proved					
Developed producing	954	37	174	28,779	5,962
Developed non-producing	5	0	34	1,725	326
Undeveloped	80	0	1	2,178	445
Total Proved	1,040	37	209	32,682	6,733
Probable	395	8	80	14,251	2,858
Total Proved plus Probable	1,435	45	289	46,932	9,591

Note: Columns may not add due to rounding.

NET PRESENT VALUES OF FUTURE NET REVENUE

Forecast Prices and Costs

As at December 31, 2006
($ millions)

	Before Income Taxes Discounted at (% per year)					After Income Taxes Discounted at (% per year)				
Reserves Category	0	5	10	15	20	0	5	10	15	20
Proved										
Developed producing	146.6	123.8	108.1	96.5	87.5	136.6	115.9	101.6	91.0	82.9
Developed non-producing	9.1	7.6	6.5	5.7	5.0	6.4	5.4	4.6	4.1	3.6
Undeveloped	6.5	5.0	3.9	3.0	2.4	4.5	3.3	2.3	1.7	1.2
Total Proved	162.2	136.4	118.5	105.2	94.9	147.6	124.6	108.6	96.8	87.6
Probable	71.8	47.1	33.5	25.2	19.7	50.6	32.7	22.9	16.8	12.9
Total Proved plus Probable	234.0	183.5	152.0	130.4	114.6	198.2	157.3	131.5	113.6	100.5

Note: Columns may not add due to rounding.

TOTAL FUTURE NET REVENUE (Undiscounted)

Forecast Prices and Costs

As at December 31, 2006
($ millions)

Reserves Category	Revenue	Royalties, net of ARTC	Operating Costs	Development Costs	Well Abandonment Costs	Future Net Revenue Before Income Taxes	Income Taxes	Future Net Revenue After Income Taxes
Proved	339.2	48.0	101.9	9.4	17.7	162.2	14.7	147.6
Proved plus Probable	497.7	69.9	150.2	23.0	20.7	234.0	35.8	198.2

FUTURE NET REVENUE BY PRODUCTION GROUP

Forecast Prices and Costs

As at December 31, 2006
($ millions)

Reserves Category	Production Group	Future Net Revenue Before Income Taxes [3] (Discounted at 10% per year)
Proved	Light and Medium Crude Oil[1]	24.5
	Heavy Oil[1]	0.5
	Natural Gas[2]	93.5
Proved plus Probable	Light and Medium Crude Oil[1]	30.9
	Heavy Oil[1]	0.5
	Natural Gas[2]	120.6

[1] *Including solution gas and other by-products.*

[2] *Including by-products but excluding solution gas from oil wells.*

[3] *Other company revenue and costs not related to a specific production group have been allocated proportionately to production groups.*

SUMMARY OF OIL AND GAS RESERVES (Company Gross)

Constant Prices and Costs

As at December 31, 2006

Reserves Category	Light and Medium Crude Oil (mbbl)	Heavy Oil (mbbl)	Natural Gas Liquids (mbbl)	Natural Gas (mmcf)	Total (mboe)
Proved					
Developed producing	970	37	173	27,966	5,840
Developed non-producing	6	0	34	1,729	329
Undeveloped	80	0	1	2,169	443
Total Proved	1,056	37	208	31,864	6,612
Probable	401	8	80	13,825	2,794
Total Proved plus Probable	1,457	45	289	45,689	9,406

Note: Columns may not add due to rounding.

NET PRESENT VALUES OF FUTURE NET REVENUE

Constant Prices and Costs

As at December 31, 2006
($ millions)

	Before Income Taxes Discounted at (% per year)					After Income Taxes Discounted at (% per year)				
Reserves Category	0	5	10	15	20	0	5	10	15	20
Proved										
Developed producing	109.9	95.0	84.2	76.0	69.5	109.6	94.7	84.0	75.8	69.3
Developed non-producing	6.7	5.6	4.8	4.2	3.7	5.0	4.2	3.6	3.1	2.8
Undeveloped	3.5	2.6	1.9	1.4	1.0	2.3	1.6	1.0	0.6	0.3
Total Proved	120.1	103.2	90.9	81.6	74.2	117.0	100.5	88.6	79.5	72.3
Probable	47.0	31.9	23.1	17.5	13.7	34.1	22.6	16.0	11.9	9.1
Total Proved plus Probable	167.1	135.1	114.1	99.1	88.0	151.1	123.1	104.6	91.4	81.4

Note: Columns may not add due to rounding.

TOTAL FUTURE NET REVENUE (Undiscounted)

Constant Prices and Costs

As at December 31, 2006
($ millions)

Reserves Category	Revenue	Royalties, net of ARTC	Operating Costs	Development Costs	Well Abandonment Costs	Future Net Revenue Before Income Taxes	Income Taxes	Future Net Revenue After Income Taxes
Proved	268.1	37.7	86.4	9.3	14.6	120.1	3.1	117.0
Proved plus Probable	379.8	53.3	121.1	22.5	15.9	167.1	16.0	151.1

FUTURE NET REVENUE BY PRODUCTION GROUP

Constant Prices and Costs

As at December 31, 2006
($ millions)

Reserves Category	Production Group	Future Net Revenue Before Income Taxes [3] (Discounted at 10% per year)
Proved	Light and Medium Crude Oil[1]	24.3
	Heavy Oil[1]	0.5
	Natural Gas[2]	66.2
Proved plus Probable	Light and Medium Crude Oil[1]	30.7
	Heavy Oil[1]	0.6
	Natural Gas[2]	82.9

[1] *Including solution gas and other by-products.*

[2] *Including by-products but excluding solution gas.*

[3] *Other company revenue and costs not related to a specific production group have been allocated proportionately to production groups.*

SUMMARY PRICING ASSUMPTIONS

The January 1, 2007 pricing assumptions utilized by GLJ Petroleum Consultants in determining the reserves and future net revenues are as follows.

Constant Prices and Costs

	WTI $US/bbl	Crude Oil Edmonton Par $Cdn/bbl	Crude Oil Bow River Hardisty $Cdn/bbl	Natural Gas Alberta AECO Spot $/mmbtu	Natural Gas Liquids Pentanes + $/bbl	Exchange Rate ($US/$Cdn)
2006 Year End	$60.85	$67.58	$48.86	$6.07	$71.55	0.8581

Forecast Prices and Costs

Year	WTI $US/bbl	Crude Oil Edmonton Par $Cdn/bbl	Crude Oil Bow River Hardisty $Cdn/bbl	Natural Gas Alberta AECO Spot $/mmbtu	Natural Gas Liquids Pentanes + $/bbl	Inflation Rates %/year	Exchange Rate $US/$Cdn
2007	62.00	70.25	49.00	7.20	71.75	2.0	0.870
2008	60.00	68.00	49.00	7.45	69.25	2.0	0.870
2009	58.00	65.75	48.75	7.75	67.00	2.0	0.870
2010	57.00	64.50	48.25	7.80	65.75	2.0	0.870
2011	57.00	64.50	49.00	7.85	65.75	2.0	0.870
2012	57.50	65.00	49.50	8.15	66.25	2.0	0.870
2013	58.50	66.25	50.25	8.30	67.50	2.0	0.870
2014	59.75	67.75	51.50	8.50	69.00	2.0	0.870
2015	61.00	69.00	52.50	8.70	70.50	2.0	0.870
2016	62.25	70.50	53.50	8.90	72.00	2.0	0.870
2017	63.50	71.75	54.50	9.10	73.25	2.0	0.870
2018+	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	2.0	0.870

RECONCILIATION OF COMPANY GROSS RESERVES BY PRODUCT TYPE

Forecast Prices and Costs

	Light and Medium Crude Oil (mbbl)	Heavy Oil (mbbl)	Natural Gas Liquids (mbbl)	Natural Gas (mmcf)	Total (mboe)
Company Gross Proved					
Opening balance – December 31, 2005	1,058	0	198	38,222	7,626
Extensions	84	0	73	2,041	497
Improved Recovery	80	0	2	1,383	313
Technical Revisions	54	0	(41)	(3,006)	(487)
Discoveries	0	39	6	382	109
Acquisitions	0	0	0	0	0
Dispositions	(5)	0	0	0	(5)
Economic Factors	11	0	1	115	30
Production	(242)	(2)	(30)	(6,455)	(1,350)
Closing balance – December 31, 2006	**1,040**	**37**	**209**	**32,682**	**6,733**
Company Gross Probable					
Opening balance – December 31, 2005	412	0	70	17,563	3,409
Extensions	(61)	0	22	1,408	196
Improved Recovery	61	0	1	(762)	(65)
Technical Revisions	(20)	0	(15)	(3,819)	(672)
Discoveries	0	8	4	236	51
Acquisitions	0	0	0	0	0
Dispositions	(1)	0	(2)	(429)	(75)
Economic Factors	4	0	0	53	13
Production	0	0	0	0	0
Closing balance – December 31, 2006	**395**	**8**	**80**	**14,250**	**2,858**
Company Gross Proved plus Probable					
Opening balance – December 31, 2005	1,470	0	268	55,785	11,036
Extensions	23	0	95	3,449	693
Improved Recovery	141	0	3	621	248
Technical Revisions	34	0	(56)	(6,824)	(1,159)
Discoveries	0	47	10	618	160
Acquisitions	0	0	0	0	0
Dispositions	(6)	0	(2)	(429)	(80)
Economic Factors	15	0	1	167	43
Production	(242)	(2)	(30)	(6,455)	(1,350)
Closing balance – December 31, 2006	**1,435**	**45**	**289**	**46,932**	**9,591**

FINDING, DEVELOPMENT AND ACQUISITION COSTS [1]

($000s, except as noted)	2006 Proved	2006 Proved plus Probable	2005 Proved	2005 Proved plus Probable	2004 Proved	2004 Proved plus Probable	3 Year Total/Average Proved	3 Year Total/Average Proved plus Probable
Total exploration and development costs incurred	**59,256**	**59,256**	36,191	36,191	34,012	34,012	129,459	129,459
Change in future development costs	**(9,918)**	**(14,917)**	17,444	5,228	283	(7,303)	7,809	(16,992)
Total exploration and development costs for F&D	**49,338**	**44,339**	53,635	41,420	34,295	26,709	137,268	112,468
Reserve additions, excluding revisions and acquisitions/dispositions *(mboe)*	**919**	**1,101**	2,499	1,967	2,351	2,555	5,769	5,623
Average finding and development costs per boe	**$53.69**	**$40.27**	$21.46	$21.06	$14.59	$10.45	$23.79	$20.00
Acquisition expenditures	**–**	**–**	4,101	4,101	–	–	4,101	4,101
Reserve additions, from acquisitions *(mboe)*	**–**	**–**	216	407	–	–	216	407
Average acquisition costs per boe	**N/A**	**N/A**	$18.99	$10.08	N/A	N/A	$18.99	$10.08
Total finding, development and acquisition costs (FD&A)	**49,338**	**44,339**	57,736	45,521	34,295	26,709	141,369	116,569
Reserve additions for finding, development and acquisition costs *(mboe)*	**919**	**1101**	2,715	2,374	2,351	2,555	5,985	6,030
Average finding, development and acquisition costs per boe	**$53.69**	**$40.27**	$21.27	$19.17	$14.59	$10.45	$23.62	$19.33

[1] Reserves and future development costs are based on forecast prices and costs evaluation.

The Board of Directors brings a wealth of experience to Endev and is diligently involved in overseeing the activities of the Company. Composed of individuals who have been selected for their diverse and relevant business expertise, the Board's primary responsibility is to supervise the management of the business and affairs of the Company with the goal of achieving the Company's principal objectives as defined by the Board, and to act with a view to the best interests of the Company. The Board holds regular meetings to review the business and affairs of the Company and make any decisions relating thereto.

The Board of Directors is comprised of the following six individuals: John Driscoll (Chairman of the Board), John Brussa, Jeffery Errico, Cameron MacGillivray, William Robertson, Richard Zarzeczny.

Multilateral Instrument 52-110 (MI 52-110) of the Canadian Securities Administrators provides that a member is "independent" if the member has no direct or indirect material relationship with the issuer, a "material relationship" being one which could, in the view of the issuer's Board of Directors, reasonably interfere with the exercise of a member's independent judgment. Under this definition, four of the six directors of Endev Energy are independent.

The responsibilities of the Board of Directors, which are more fully outlined in the mandate and charter, include the following:

- defining the principal objectives of the Corporation;
- supervising the management of the business and affairs of the Corporation with the goal of achieving the Corporation's principal objectives as defined by the Board; and
- discharging duties imposed on the Board by applicable laws and for the purpose of carrying out this duty, take all such actions as the Board deems necessary or appropriate.

DIRECTOR ORIENTATION AND CONTINUING EDUCATION

The Board regularly reviews the orientation and education program for new members to the Board to ensure that it is adequate and effective. When a new member is appointed to the Board, he or she will meet with the Chairman and members of management to determine the specific orientation and education required.

SHAREHOLDING OF BOARD MEMBERS

The following table summarizes the shareholdings of each Board member:

Director	Common Shares Owned	Stock Options Held
John F. Driscoll	8,586,687	110,000
Cameron J. MacGillivray	234,127	1,475,000
John A. Brussa	370,000	285,000
William D. Robertson	120,000	285,000
Jeffery E. Errico	520,000	485,000
Richard J. Zarzeczny	78,000	235,000

COMMUNICATION WITH THE BOARD

Shareholders and other interested parties may communicate with the Board by contacting the Chief Financial Officer. All communications received will be reviewed and delivered to appropriate members of the Board, including the Chairman.

COMMITTEES OF THE BOARD

Endev's Board of Directors has three committees: the Audit Committee, the Corporate Governance, Nomination and Compensation Committee and the Reserves Committee.

The Audit Committee consists of William Robertson (Chair), Jeffery Errico and Richard Zarzeczny, all of whom are independent directors. The Audit Committee met four times in 2006. The mandate for the Audit Committee includes the following:

- monitor the integrity of the financial reporting process and system of internal controls;
- ensure that adequate procedures are in place for the review of the Company's disclosure of financial information extracted or derived from the Company's financial statements; and
- make recommendations to the Board with respect to the external auditors.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and to retain, at the Company's expense, special legal, accounting and other consultants or experts it deems necessary in the performance of its duties.

The Corporate Governance, Nomination and Compensation Committee comprises John Brussa (Chairman), Jeffery Errico and William Robertson, all of whom are independent within the meaning of MI 52-110. The mandate for the Corporate Governance, Nomination and Compensation Committee includes the following:

- monitor the Company's Corporate Communications and Disclosure Policy;
- review and make recommendations to the Board with regard to compensation and human resources policies, practices and structures;
- review and make recommendations to the Board relating to corporate governance policy; and
- review and evaluate the performance of the Company's President and CEO.

Jeffery Errico (Chairman), John Brussa and Richard Zarzeczny, all of whom are independent directors, make up the Reserves Committee. The Reserves Committee reviews the annual reserves report prepared by independent engineers and all disclosures relating to reserves reported in continuous disclosure documents. The mandate for the Reserves Committee includes the following:

- reviewing the appointment of the independent engineering firm retained by the Corporation;
- reviewing the Corporation's procedures for assembling information and providing information to the independent engineering firm;
- meeting with the independent engineering firm;
- reviewing the annual reserves report prepared by independent engineers; and
- reviewing all disclosures relating to reserves reported in continuous disclosure documents.

Full copies of the Board of Directors and committee mandates are available on the Company's website at www.endevenergy.com.

MEETING ATTENDANCE AND TOTAL COMPENSATION

The following table summarizes Board and Committee Meeting attendance as well as total compensation paid in 2006.

Director	Board Meetings Attended	Committee Meetings Attended	Total Compensation Paid
John A. Brussa	5 of 5	3 of 3	$10,000
John F. Driscoll	5 of 5	N/A	$10,000
Jeffery E. Errico	5 of 5	7 of 7	$11,500
Cameron J. MacGillivray	5 of 5	N/A	NIL
William D. Robertson	5 of 5	6 of 6	$14,000
Richard J. Zarzeczny	5 of 5	5 of 5	$10,000

Mr. Brussa has been a partner of Burnet, Duckworth & Palmer LLP since 1987. Mr. Brussa received his Bachelor of Laws Degree from the University of Windsor in 1981 and currently serves as a director of a number of publicly-listed resource corporations, an investment dealer and several non-profit or charitable organizations.

Mr. Driscoll is the founding President, Chairman and Chief Executive Officer of Sentry Select Capital Corp. He also founded and has been Chairman of NCE Resources Group since 1984, and Chairman and Founder of Petrofund Energy Trust from 1988 to 2006. He is also Chairman of Inter Pipeline Fund, Strategic Energy Fund, Endev Energy Inc. and C.A. Bancorp. since October 2002, May 2002, October 2003 and January 2006 respectively. Mr. Driscoll has been president, since 1981, of J.F. Driscoll Investment Corp., a company specializing in investment management and related advisory and consulting services. Mr. Driscoll received his Bachelor of Science degree from the Boston College Business School and attended the New York Institute of Finance for advanced business studies. He has more than 30 years of diversified business experience. He is a member of the CFA Institute (formerly the Association for Investment Management and Research) and also attained the professional manager designation with the Canadian Institute of Management. He has founded numerous public partnerships as well as public and private energy and investment related companies. During the last 20 years, issuers of which Mr. Driscoll was chairman or CEO have invested or managed the investment of more than $10.5 billion. He is Vice Chair of the Royal Ontario Museum Foundation Board of Directors.

JEFFERY E. ERRICO

Jeffery E. Errico is a Professional Engineer with a Bachelor of Applied Science Degree in Chemical Engineering from the University of British Columbia. Currently, Mr. Errico is the Executive Chairman of Insignia Energy Inc., a private energy company. From April 2003 to June 2006, Mr. Errico was President and Chief Executive Officer of Petrofund Energy Trust. Prior thereto, he held several executive officer positions with Petrofund as well as the NCE Resources Group. During his career, Mr. Errico also gained extensive experience in the area of economic evaluations, reservoir and operations engineering having served as a senior executive for several oil and gas companies. Mr. Errico has over 30 years experience in the oil and gas industry, serving as Vice President, Operations for Deminex Canada Limited prior to joining NCE Resources Group in 1995.

CAMERON J. MACGILLIVRAY

Mr. MacGillivray is President and Chief Executive Officer of Endev Energy Inc. He is a geotechnical engineer with more than 30 years experience in the oil and gas industry. From 1980 to the end of 2003, Mr. MacGillivray worked for EnCana Corporation and one of its predecessor companies, PanCanadian Petroleum, in a variety of operational and leadership roles. Most recently, he was Senior Vice-President for a division of EnCana, where he was responsible for six departments, including Geology, Geophysics, and Commercial Negotiations & Legal, and he managed a staff of 90 people.

At PanCanadian, Mr. MacGillivray served as the General Manager for the Selkirk Business Unit for five years and was responsible for all exploration, development and production and managed a capital budget of $200 million and an operating budget of $100 million. Under his leadership, the Selkirk Unit's natural gas production grew to 200 million cubic feet per day and its crude oil production grew to 50,000 barrels per day with a staff of 300 employees. Prior to joining PanCanadian Petroleum, Mr. MacGillivray worked with an independent engineering firm and with Home Oil Company.

WILLIAM D. ROBERTSON, F.C.A.

Mr. Robertson is a Fellow Chartered Accountant and was formerly a partner with PricewaterhouseCoopers LLP. After enjoying a 36-year career with the firm, he retired from the practice in 2002. His area of practice was in audit with a concentration on large public oil and gas companies. Mr. Robertson has a Bachelor of Commerce degree from the University of Alberta.

RICHARD E. ZARZECZNY

Mr. Zarzeczny is president of Canadian Enerdata Limited, an energy and economic consulting firm specializing in oil and gas industry analysis and price forecasting. He is publisher/editor of the Canadian Gas Price Reporter, the industry benchmark for Canadian natural gas prices and price indices. He graduated from Simon Fraser University in 1980 with a Master of Arts Degree in Economics specializing in econometrics and in 1975 received a Master of Arts Degree in Mathematics from the University of Regina.

Management's Discussion and Analysis (MD&A) is provided by the management of Endev Energy Inc. (Endev or the Company) of Endev's operating and financial results for the three and twelve month periods ended December 31, 2006 compared with the corresponding periods in the prior year. This commentary should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2006 and 2005. This commentary is based on information available to March 9, 2007.

The Company's audited consolidated financial statements, current annual information form and other documents are filed on SEDAR at www.sedar.com.

NON-GAAP MEASUREMENTS

The financial data presented has been prepared in accordance with Canadian generally accepted accounting principles (GAAP) except for the terms funds from operations and netback. Funds from operations has been presented for information purposes only and should not be considered an alternative to, or more meaningful than cash flow from operating activities as determined in accordance with GAAP. The determination of Endev's funds from operations may not be comparable to the same reported by other companies. Endev calculates funds from operations as follows:

	Three months ended December 31		Year ended December 31	
	2006	2005	**2006**	2005
Cash flow from operations	**11,130**	11,363	**32,732**	43,587
Changes in non-cash working capital	**(1,996)**	2,271	**(37)**	660
Funds from operations	**9,134**	13,634	**32,695**	44,247

Funds from operations per share was calculated using the same weighted average shares outstanding used in calculating net income per share. Netback equals total revenue less royalties, operating expenses and transportation expenses.

BASIS OF BARREL OF OIL EQUIVALENT

For the purposes of calculating unit costs, natural gas has been converted to a barrel of oil equivalent (boe) using 6,000 cubic feet equal to one barrel (6:1), unless otherwise stated. The boe conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method and does not represent a value equivalency; therefore boe may be misleading if used in isolation. This conversion conforms to the Canadian Securities Regulators' National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities.

DISCLOSURE CONTROLS AND PROCEDURES

The Company has a Corporate Communication and Disclosure Policy which has been distributed to all staff detailing the controls, policies and procedures with respect to disclosure to third parties of information concerning the Company's operations and results. The Chief Executive Officer and Chief Financial Officer, who comprise Endev's Disclosure Committee, evaluated the effectiveness of the Company's disclosure controls and procedures as at the financial year ended December 31, 2006. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2006 to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them by others within those entities.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

As at the financial year ended December 31, 2006, the Chief Executive Officer and the Chief Financial Officer evaluated the design and implementation of the Company's internal controls over financial reporting. This evaluation was done with the assistance of third party specialists who worked under the Company's supervision to formally document the Company's internal controls over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of internal control over financial reporting was effective as at December 31, 2006 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP except as stated below. It should be recognized however, that no system of internal control over financial reporting can provide more than reasonable assurance as to the effectiveness of such controls over financial reporting.

Management is aware that due to its relatively small scale of operations there is a lack of segregation of duties due to a limited number of employees dealing with accounting and financial matters. However, management has concluded that considering the employees involved and the control procedures in place, including management and Audit Committee oversight, risks associated with such lack of segregation are not significant enough to justify the expense associated with adding employees to clearly segregate duties. Management is aware that in-house expertise to deal with complex taxation,

accounting and reporting issues may not be sufficient. The Company utilizes outside assistance and advice on new accounting pronouncements and complex accounting and reporting issues, which is common with companies of a similar size.

There have been no significant changes to the Company's internal control over financial reporting that occurred during the most recent period that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

RESULTS OF OPERATIONS

Endev achieved the following daily production rates:

	Three months ended December 31			Year ended December 31		
Daily production	**2006**	2005	% change	**2006**	2005	% change
Natural gas *(mcf/d)*	**19,528**	17,685	10	18,006	18,558	(3)
Natural gas liquids *(bbl/d)*	**111**	76	46	84	96	(13)
Crude oil *(bbl/d)*	**772**	628	23	679	589	15
Total production *(boe/d)*	**4,138**	3,651	13	3,764	3,778	–

Production in the fourth quarter of 2006 increased 10 percent from the third quarter of 2006 and 13 percent from the fourth quarter of 2005 to average 4,138 boe per day. The increase in production over the third quarter of 2006 and the fourth quarter of 2005 is attributed increases in production at Majorville Mannville, Majorville shallow and the non operated Pine Creek areas due to wells being tied-in during the periods. Natural gas accounted for 79 percent of the Company's production in the fourth quarter of 2006 compared to 81 percent in 2005. Natural gas production increased 10 percent to 19,528 mcf per day compared to 17,685 mcf per day for the same period in 2005. Crude oil and natural gas liquids (NGLs) production for the fourth quarter increased 25 percent to 883 barrels per day, compared to 704 barrels per day for the same period in 2005.

Production was relatively unchanged year over year at 3,764 boe per day for the year ended December 31, 2006 compared to 3,778 boe per day for the same period in 2005. Natural gas accounted for 80 percent of the Company's production in 2006 compared to 82 percent in 2005. Natural gas production decreased three percent to 18,006 mcf per day compared to 18,558 mcf per day in 2005. The small decrease in natural gas production was due to the declines in the Majorville shallow gas production only partially being offset by additional shallow gas drilling and Mannville gas coming on stream later in the year. Crude oil and NGL production for the year ended December 31, 2006 increased 11 percent to 763 barrels per day, compared to 685 barrels per day for the same period in 2005. In December 2006 the Company had an exit production rate of 4,400 boe per day. Our 2007 production is estimated to average 4,200 to 4,400 boe per day.

Production by Area

Daily production (boe/d)	Three months ended December 31 2006	2005	% change	Year ended December 31 2006	2005	% change
Majorville Shallow Gas	**2,453**	2,335	5	**2,299**	2,400	(4)
Majorville Mannville	**465**	23	1,922	**299**	13	2,200
Drumheller	**267**	298	(10)	**274**	301	(9)
Other	**953**	995	(4)	**892**	1,064	(16)
Total	**4,138**	3,651	13	**3,764**	3,778	–

The table above sets out the average production from each of the Company's principal areas of operations. The Majorville Mannville production in the fourth quarter was made up of 58 percent oil and in December 2006 Majorville Mannville production was 610 boe per day. The Mannville production is expected to continue to increase as the Company commits additional capital to it in 2007.

Commodity Markets

Natural Gas

The AECO spot daily gas index was down $2.20 per mcf year-over-year or 25 percent to average $6.53 per mcf in 2006. Alberta spot prices at AECO decreased more than NYMEX prices due to the continued appreciation of the Canadian dollar against the US dollar and due to widening basis differentials attributable to soft storage demand. In the fourth quarter of 2006 AECO rose by $1.27 per mcf over the third quarter of 2006 to average $6.91.

Crude Oil

World oil prices increased significantly again in 2006 reaching a high in July for West Texas Intermediate (WTI) of US$74.47 per barrel. Over 2006, WTI averaged a record US$66.22 per barrel, up US$9.66 per barrel or 17 percent from 2005's US$56.56 per barrel average. For the fourth quarter of 2006 WTI decreased US$10.27 per barrel or 15 percent over the third quarter of 2006 to average US$60.21 per barrel. The Canadian dollar rose from an average of $0.83 against the US dollar in 2005 to an average of $0.88 in 2006. For the year, Edmonton par prices (in Canadian dollar terms) increased to $72.77 per barrel, up $3.43 per barrel or five percent over 2005. In the fourth quarter, Edmonton light prices averaged $64.49 per barrel down $14.59 per barrel or 18 percent from the third quarter of 2006. Canadian crude differentials to WTI also widened significantly in the fourth quarter as inventories reached capacity well ahead of the start of cold weather.

Average Prices Received

Endev realized the following commodity prices:

Average sales prices realized	Three months ended December 31 2006	2005	% change	Year ended December 31 2006	2005	% change
Natural gas *($/mcf)*	**7.03**	10.97	(36)	**6.65**	8.51	(22)
Natural gas liquids *($/bbl)*	**51.87**	60.31	(14)	**55.43**	45.95	21
Crude oil *($/bbl)*	**56.04**	56.00	–	**63.31**	56.92	11
Weighted Average *($/boe) (6:1)*	**45.04**	64.07	(30)	**44.49**	51.88	(14)

The sales prices realized by the Company for natural gas are consistent with AECO pricing. The Company's realized price for oil is increasing relative to Edmonton par as the increased Manville oil production attracts a higher price due to its higher quality relative to the other oil production of the Company.

During the quarter ended December 31, 2006, the Company entered into the following natural gas contracts:

Product	Volume	Period	Contract	Price
Natural gas	2000 GJ per day	April to October 2007	Costless Collar	Floor $6.67/GJ Ceiling $7.54/GJ
Natural gas	1000 GJ per day	April to October 2007	Costless Collar	Floor $6.67/GJ Ceiling $8.15/GJ

These contracts are marked to market with the corresponding valuation recorded on the balance sheet. No settlements were made on the transactions. The marked to market value of the contracts at December 31, 2006 is $0.3 million.

Subsequent to December 31, 2006, Endev entered into the following additional natural gas contracts:

Product	Volume	Period	Contract	Price
Natural gas	1000 GJ per day	April to October 2007	Costless Collar	Floor $6.00/GJ Ceiling $7.00/GJ
Natural gas	1000 GJ per day	April to October 2007	Costless Collar	Floor $6.25/GJ Ceiling $7.33/GJ
Natural gas	1000 GJ per day	April to October 2007	Costless Collar	Floor $6.50/GJ Ceiling $7.72/GJ

The Company entered into this series of costless collar financial contracts to hedge the risk of lower natural gas prices in the summer of 2007. In total the contracts are for the sale of 6,000 GJ per day of natural gas at an average floor price of $6.46 per GJ and an average ceiling price of $7.55 per GJ for the period April 2007 through October 2007. This represents an estimated 30 percent of the Company's forecast natural gas production for the period.

Endev realized the following operating netbacks from oil and gas operations:

	Three months ended December 31			Year ended December 31		
Netback per boe (6:1) ($)	**2006**	2005	% change	**2006**	2005	% change
Petroleum and natural gas revenues	**45.04**	64.07	(30)	**44.49**	51.88	(14)
Royalties, net of ARTC	**6.19**	11.17	(45)	**6.96**	8.77	(21)
Operating expenses	**9.11**	8.86	3	**8.84**	6.79	30
Transportation	**0.97**	0.97	–	**0.95**	0.95	–
Operating netback	**28.77**	43.07	(33)	**27.74**	35.37	(22)

Production Revenue

Endev realized the following gross revenues:

($000s)	Three months ended December 31 2006	2005	% change	Year ended December 31 2006	2005	% change
Natural gas	**12,635**	17,854	(29)	**43,736**	57,650	(24)
Natural gas liquids	**529**	420	26	**1,695**	1,608	5
Crude oil	**3,983**	3,236	23	**15,696**	12,235	28
Sulphur	**1**	13	(95)	**2**	45	(96)
Total	**17,148**	21,523	(20)	**61,129**	71,538	(15)

For the fourth quarter, gross revenues increased 23 percent to $17.1 million from the third quarter of 2006 and decreased 20 percent from $21.5 million for the same period in 2005. The 30 percent decline in the weighted average sales price per boe between fourth quarter of 2006 and the fourth quarter of 2005 was not fully offset by the 13 percent increase in production per boe resulting in the 20 percent decline in production revenue. The average price received for natural gas increased 28 percent to $7.03 per mcf in the fourth quarter of 2006 compared to $5.49 per mcf in the third quarter of 2006 and decreased 36 percent from $10.97 per mcf in 2005. The average price received for crude oil was $56.04 per bbl in the fourth quarter of 2006 compared to $56.00 in 2005.

For the year, gross revenues decreased 15 percent to $61.1 million from $71.5 million for the same period in 2005 due to the 14 percent decrease in the weighted average sales price per boe received. Natural gas production revenue decreased 24 percent reflecting the 22 percent decline in natural gas prices. Crude oil production revenue increased 28 percent on a 15 percent increase in oil sales volume and an 11 percent increase in price. The Company did not hedge any of its production in 2006 and 2005. To hedge the risk of lower gas prices in the summer of 2007 the Company has entered into a series of costless collar financial instruments for a portion of its forecast gas production from April to October 2007, as mentioned above.

Royalties

($000s)	Three months ended December 31 2006	2005	% change	Year ended December 31 2006	2005	% change
Royalties *($000s)*	**2,355**	3,752	(37)	**9,563**	12,093	(21)
Average royalty rate *(%)*	**14**	17	(18)	**16**	17	(6)
$/boe	**6.19**	11.17	(45)	**6.96**	8.77	(21)

Royalties, net of the Alberta Royalty Tax Credit (ARTC), were $ 2.4 million in the fourth quarter of 2006 and $3.8 million in the fourth quarter of 2005, and averaged $ 6.19 per boe or 14 percent of revenue compared to $11.17 per boe or 17 percent of revenue for the same period in 2005.

Royalties, net of the Alberta Royalty Tax Credit (ARTC), were $9.6 million in 2006 and $12.1 million in 2005, and averaged $6.96 per boe or 16 percent of revenue compared to $8.77 per boe or 17 percent of revenue for the same period in 2005. The decline in the royalty rate reflects the decline in average well production as the number of shallow gas wells increases each year.

On September 21, 2006 the Alberta government announced the elimination of the ARTC for royalties paid in respect of production after January 1, 2007. In 2006 the Company qualified for the maximum ARTC of $500,000.

	Three months ended December 31			Year ended December 31		
($000s)	**2006**	2005	% change	**2006**	2005	% change
Operating	**3,468**	2,979	16	**12,148**	9,359	30
Transportation	**371**	325	14	**1,304**	1,307	–
General and administrative	**927**	547	69	**2,931**	2,525	16
Interest	**774**	263	194	**2,180**	1,185	84

	Three months ended December 31			Year ended December 31		
Expenses per boe $	**2006**	2005	% change	**2006**	2005	% change
Operating	**9.11**	8.86	3	**8.84**	6.79	30
Transportation	**0.97**	0.97	–	**0.95**	0.95	–
General and administrative	**2.43**	1.63	49	**2.13**	1.83	17
Interest	**2.03**	0.79	157	**1.59**	0.86	85

During the fourth quarter of 2006, operating expenses increased to $3.5 million compared to $3.0 million in the same period for 2005. On a per unit basis, operating costs increased to $9.11 per producing boe during the quarter compared to $8.86 per producing boe in the same period for 2005.

During the year 2006, operating expenses increased to $12.1 million compared to $9.4 million in 2005. On a per unit basis, operating costs increased 30 percent to $8.84 per producing boe during the year 2006 compared to $6.79 per producing boe in 2005. The increase in operating costs in 2006 from 2005 is generally due to increased service costs by third parties and an increase in the number of wells on average producing less gas. There were also increases in well servicing and maintenance costs and with more oil production, an increase in the cost of transporting oil emulsion to be treated. For 2007 we expect some service costs to decline relative to 2006 and we will continue to pursue operating efficiencies.

Transportation costs averaged $0.97 per boe in the fourth quarter of 2006 and the fourth quarter of 2005.

Transportation costs were $1.3 million and averaged $0.95 per boe in both 2006 and 2005. Transportation costs are the costs to transport oil and gas from the production facility to the point of sale.

General and administrative costs increased to $0.9 million in the fourth quarter of 2006 compared to $0.5 million for the same period in 2005. On a barrel of oil equivalent basis, general and administrative costs increased to $2.43 per boe from $1.63 per boe. The Company capitalizes the salaries and associated direct costs of professional staff directly associated with the Company's exploration and development

activities. The Company capitalized $0.4 million of general and administrative costs in the fourth quarter of 2006 and $0.3 million in the fourth quarter of 2005.

General and administrative costs increased to $2.9 million in 2006 compared to $2.5 million for 2005. The higher costs in 2006 were due to increased staffing levels, increased compensation and the use of outside consultants to assist in the documentation of internal controls. On a barrel of oil equivalent basis general and administrative costs increased 17 percent to $2.13 per boe from $1.83 per boe. The Company capitalized $1.2 million of general and administrative costs in 2006 and $0.9 million in 2005.

Interest and Financing Charges

Interest and financing charges for the fourth quarter of 2006 were $0.8 million or $2.03 per producing boe compared to $0.3 million or $0.79 per producing boe for the comparable period in 2005.

Interest and financing charges for 2006 were $2.2 million or $1.59 per producing boe compared to $1.2 million or $0.86 per producing boe for 2005. The interest and financing charges reflect the higher debt levels during the period and an increase in the effective interest rates.

Stock-Based Compensation

Stock-based compensation costs were $0.6 million in the fourth quarter of 2006 compared to $0.3 million for the same period of 2005.

Stock-based compensation costs were $1.9 million in 2006 compared to $1.2 million in 2005. The increase reflects the options issued during the year. As at December 31, 2006, the Company has $1.4 million of unamortized stock-based compensation costs that will be charged to income over the remaining vesting period of the options outstanding.

Income and Capital Taxes

During the second quarter of 2006, the Canadian Federal Government eliminated the Federal Large Corporations Tax (LCT), effective January 1, 2006. Endev pays the Saskatchewan Resource Surcharge, which is based on Saskatchewan oil and gas revenues and records this as a royalty expense. The Company has no provision for current income taxes in 2006 and does not expect to have a current income tax liability for 2007, as the Company has sufficient tax pools to offset income in the year. At December 31, 2006 the Company has approximately $108.3 million in tax pools and non-capital loss carry forwards available for future use as deductions from taxable income.

Current taxes in 2005 represent the LCT that was eliminated in 2006.

Future income tax liabilities arise due to the difference between the tax basis of assets and their respective accounting carrying cost. For the three months ended December 31, the provision for future taxes was $0.3 million recovery in 2006 and $1.4 million in 2005. The provision for future income taxes in 2006 was $1.7 million recovery compared to $4.2 million for 2005. During the second quarter of 2006 the Canadian Federal Government and certain provincial governments enacted reductions to their corporate income tax rates, resulting in a reduction of future income tax liabilities of approximately $2.8 million in 2006.

Depletion and Depreciation

Depletion is calculated using the unit-of-production method based on total estimated proved reserves. Depletion and depreciation expense for the fourth quarter was $9.8 million or $25.72 per boe, compared to $6.7 million or $20.04 per boe for the same period in 2005. Depletion expense in the fourth quarter of 2006 has increased over the fourth quarter of 2005 due to increased production levels and a reduction in reserves due to technical revisions to prior years' reserves estimates and to preliminary estimates of 2006 reserve additions.

Depletion and depreciation expense for 2006 was $29.8 million or $21.73 per boe compared to $26.9 million or $19.50 per boe in 2005. Depletion expense has increased year over year due to additional costs subject to depletion and a reduction in reserves. The reduction in reserves is due to technical revisions to prior years' reserves estimates.

...igation Accretion

The provision for accretion of asset retirement costs for the fourth quarter was $0.2 million or $0.44 per boe, compared to $0.2 million or $0.45 per boe for the same period in 2005.

For the year ended December 31, 2006, accretion of asset retirement obligation was $0.6 million or $0.46 per boe compared to $0.6 million or $0.44 per boe in 2005. Additional information on asset retirement obligations is included in Note 4 to the Consolidated Financial Statements.

...s) and Funds from Operations

	Three months ended December 31			Year ended December 31		
($000s, except per share amounts)	**2006**	2005	% change	**2006**	2005	% change
Net income (loss)	**(634)**	5,131	–	**2,679**	12,044	(78)
Basic per share	**(0.01)**	0.06	–	**0.03**	0.14	(79)
Diluted per share	**(0.01)**	0.06	–	**0.03**	0.14	(79)
Funds from operations	**9,134**	13,634	(33)	**32,695**	44,247	(26)
Basic per share	**0.10**	0.15	(33)	**0.37**	0.50	(26)
Diluted per share	**0.10**	0.15	(33)	**0.36**	0.49	(27)

The Company realized a loss of $0.6 million for the fourth quarter, or a loss of $0.01 per share on a basic and diluted basis compared to net income of $5.1 million for the same period in 2005, with earnings of $0.06 per share on a basic and diluted basis. The decrease in net income was due to the decrease in commodity prices and an increase in depletion, general administrative costs and operating costs partially offset by an increase in production. Funds from operations in the fourth quarter, before adjusting for the change in non-cash working capital, decreased 33 percent to $9.1 million in 2006 compared to $13.6 million for the same period in 2005. On a per share basis funds from operations decreased to $0.10 per basic share compared to $0.15 per basic share for the same period in 2005.

For the year 2006 the Company had a significant decrease in net income to $2.7 million, with earnings of $0.03 per share on a basic and diluted basis compared to $12.0 million for the same period in 2005, with earnings of $0.14 per share on a basic and diluted basis. The decrease in net income was due to the decrease in commodity prices and an increase in depletion, operating costs and interest.

Funds from operations for the year 2006, before adjusting for the change in non-cash working capital, decreased 26 percent to $32.7 million compared to $44.2 million in 2005. On a per share basis funds from operations were $0.37 per basic share compared to $0.50 per basic share for 2005. The decrease in funds from operations is primarily attributable to lower commodity prices and increased operating expenses.

SUMMARY OF QUARTERLY FINANCIAL INFORMATION

($000s, except per share amounts)	**Dec. 31 2006**	Sept. 30 2006	June 30 2006	March 31 2006
Gross revenue	**17,148**	13,972	13,790	16,219
Funds from operations	**9,134**	7,314	7,456	8,791
Basic per share	**0.10**	0.08	0.08	0.10
Diluted per share	**0.10**	0.08	0.08	0.10
Net income (loss)	**(634)**	(275)	2,474	1,114
Basic per share	**(0.01)**	–	0.03	0.01
Diluted per share	**(0.01)**	–	0.03	0.01
Capital expenditures, net	**14,948**	15,296	11,965	17,263
Net debt [1]	**54,746**	48,932	40,851	36,496
Total daily production *(boe/d)*	**4,138**	3,746	3,555	3,612

($000s, except per share amounts)	Dec. 31 2005	Sept. 30 2005	June 30 2005	March 31 2005
Gross revenue	21,523	17,644	15,724	16,647
Funds from operations	13,634	11,231	10,426	8,956
Basic per share	0.15	0.13	0.12	0.10
Diluted per share	0.15	0.12	0.12	0.10
Net income (loss)	5,131	3,693	2,497	723
Basic per share	0.06	0.04	0.03	0.01
Diluted per share	0.06	0.04	0.03	0.01
Capital expenditures, net	17,993	10,398	8,420	3,614
Net debt [1]	28,190	23,831	24,665	26,780
Total daily production *(boe/d)*	3,651	3,376	3,850	4,245

[1] *Excluding unrealized gains on commodity contracts.*

SELECTED ANNUAL INFORMATION

($000s, except per share amounts)	**2006**	2005	2004
Gross revenue	**61,129**	71,538	52,349
Net income	**2,679**	12,044	926
Basic per share	**0.03**	0.14	0.01
Diluted per share	**0.03**	0.14	0.01
Total assets	**188,940**	158,693	140,893
Total liabilities	**94,030**	68,581	64,285
Total daily production *(boe/d)*	**3,764**	3,778	3,500

CAPITAL EXPENDITURES

The following table outlines Endev's capital expenditures:

	Three months ended December 31		Year ended December 31	
($000s)	**2006**	2005	**2006**	2005
Acquisitions	**–**	2,681	**–**	4,100
Dispositions	**–**	–	**–**	–
		2,681		4,100
Land and seismic	**577**	322	**3,990**	1,565
Drilling and completions	**10,795**	12,829	**40,867**	30,000
Tie-ins and facilities	**3,570**	2,131	**14,399**	4,626
Other	**6**	30	**216**	133
Net property	**14,948**	15,312	**59,472**	36,324
Total net capital expenditures	**14,948**	17,993	**59,472**	40,424

During the three months ended December 31, 2006, the Company incurred capital expenditures of $14.9 million. The Company drilled nine gross (9.0 net) wells in the quarter and spent $3.6 million for tie-ins and facilities.

During the year ended December 31, 2006, the Company incurred capital expenditures of $59.5 million. Endev spent $4.0 million for land and seismic, $40.9 million on drilling and completions and $14.4 million for tie-ins and facilities. This capital was spent on the 101 gross (82.5 net) wells drilled in 2006 and to-tie in the 79 wells that were awaiting tie-in at the end of 2005. The Company, like most industry participants, experienced significant increases in service and material costs in 2006 which increased the amount of capital required to carry out our capital plans.

In 2005 the Company made two property acquisitions in the Majorville area of Alberta for a total purchase price of $4.1 million. One acquisition was made in the first quarter and the other in the fourth quarter of 2005. Both acquisitions were complementary to our existing assets, adding production from properties which Endev operates and provide land with several low risk drilling opportunities.

FOURTH QUARTER 2006 DRILLING RESULTS

	Gross				Net			
	Gas	Oil	Dry	Total	Gas	Oil	Dry	Total
Admiral	7	–	–	7	7.0	–	–	7.0
Drumheller	–	–	–	–	–	–	–	–
Majorville	1	–	–	1	1.0	–	–	1.0
Provost	–	1	–	1	–	1.0	–	1.0
Other	–	–	–	–	–	–	–	–
Total	8	1	–	9	8.0	1.0	–	9.0

2006 DRILLING RESULTS

	Gross				Net			
	Gas	Oil	Dry	Total	Gas	Oil	Dry	Total
Admiral	10	–	–	10	10.0	–	–	10.0
Drumheller	4	–	–	4	1.1	–	–	1.1
Majorville	72	6	1	79	61.4	6.0	1.0	68.4
Provost	–	2	–	2	–	2.0	–	2.0
Other	6	–	–	6	1.0	–	–	1.0
Total	92	8	1	101	73.5	8.0	1.0	82.5

Endev enjoyed a 99 percent success rate in drilling 101 gross (82.5 net) wells in 2006.

LAND SUMMARY

As at December 31, 2006	Developed		Undeveloped		Total	
(acres)	Gross	Net	Gross	Net	Gross	Net
Alberta	177,538	112,028	131,910	81,893	309,448	193,921
British Columbia	316	43	316	43	632	86
Manitoba	439	170	–	–	439	170
Saskatchewan	3,425	1,741	1,609	1,106	5,034	2,847
Total	181,718	113,982	133,835	83,042	315,553	197,024

During 2006 Endev acquired 35,499 gross acres (34,408 net) of land at Alberta Crown land sales and through acquisitions and 16,649 gross acres (10,125 net) expired. In addition the Company has access to approximately 61,000 gross acres through farm-ins on other industry participants.

LIQUIDITY AND CAPITAL RESOURCES

During the year, Endev increased its revolving credit facility with the National Bank of Canada to $60 million. Total net capital expenditures of $14.9 million for the fourth quarter of 2006 and $59.5 million for the year ended December 31, 2006 and were funded from operations and an increase in debt. During 2006 debt increased by $25.0 million. At December 31, 2006, the Company had approximately $52.0 million outstanding on its revolving credit facility and a working capital deficiency of $2.7 million, excluding the unrealized gain on commodity contracts, for total net debt of $54.7 million resulting in a debt to annualized fourth quarter cash flow of 1.5 times.

It is anticipated that future capital expenditures and operations will be funded with cash flow from operations and additional debt as required. The plans for 2007 call for capital spending to approximate cash flow.

OUTLOOK

In 2007 the Company plans a capital expenditure program of $40 million which will allow for the drilling of 105 gross (79 net) wells. Efforts will be focused primarily on continuing our success in developing the Company's inventory and to build on the results from our Mannville program and the farm-in areas at Provost and Admiral. Our production goal for 2007 is to average of 4,200 to 4,400 boe per day, representing a 15 percent increase from 2006.

SHARE INFORMATION

The Company had 88,902,557 shares and 6,729,100 options to purchase shares outstanding as at December 31, 2006.

The Company issued a total of 843,334 shares pursuant to the exercise of stock options during the year ended December 31, 2006 and settled and cancelled 400,000 outstanding vested stock options.

	Three months ended December 31		Year ended December 31	
($000s)	**2006**	2005	**2006**	2005
Shares outstanding				
– Basic	**88,903**	88,059	**88,903**	88,059
– Diluted	**95,632**	92,886	**95,632**	92,886
Weighted average shares outstanding				
– Basic	**88,903**	88,059	**88,646**	87,987
– Diluted	**88,903**	89,937	**89,636**	89,561

At March 9, 2007, the Company had 88,902,557 shares and 6,739,100 options to purchase shares outstanding.

BUSINESS RISKS

The oil and gas exploration and development sector has inherent risks that begin with the exploration process, which is capital intensive and may or may not encounter economic reserves of crude oil or natural gas, in addition to unforeseen production declines and as a consequence reduced reserves. Increasingly, readily available technology helps to mitigate the risk. Endev employs the most appropriate technology in all areas of its business. The intrinsic business and financial risks within the industry include volatility of commodity prices, fluctuation in supplier costs, inflation, changes in exchange rates, the cost of capital and other macro economic factors. The recent volatility in commodity prices and the rise in service costs may require Endev to re-evaluate its capital spending and activity plans in the future. Endev focuses on managing costs within its control and pursuing geographic areas and geologic targets that result in manageable capital risk. By focusing on core areas, Endev reduces risk by utilizing its experience in the area and reducing the administrative and logistical costs of its field activity. In order to minimize the risks to the community and to its field staff and suppliers, Endev demands the highest standards of safety on its leases. A more detailed discussion of the business risks the Company is subject to is found in our current annual information form filed on SEDAR at www.sedar.com.

CONTRACTUAL OBLIGATIONS

In the normal course of business the Company enters into various forms of contractual obligations including; royalty agreements, operating agreements, processing agreements, purchase of services and lease obligations for office space and office equipment. All contractual obligations reflect market conditions and do not involve related parties.

The only significant obligation of the Company with a fixed term is a lease for office premises terminating on March 31, 2012. The estimated obligation at December 31, 2006, including operating costs is $2.9 million for approximately 13,600 square feet of office space.

CHANGES IN ACCOUNTING POLICIES

During 2006 the Company adopted new accounting policies with respect to accounting for derivative instruments. See Financial Instruments below.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies used by Endev Energy Inc. are disclosed in note 2 to the December 31, 2006 consolidated financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in these judgments and estimates may have a material impact on the Company's financial results and condition. The following discusses such accounting policies and is included in Management's Discussion and Analysis to aid the reader in assessing the critical accounting policies and practices of the Company and the likelihood of materially different results being reported. Endev's management reviews its estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts, that differ materially from current estimates.

The following assessment of significant accounting policies is not meant to be exhaustive. The Company might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

Oil and Gas Reserves

Under NI 51-101, "Proved" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable (it is likely that the actual remaining quantities recovered will exceed the estimated Proved reserves). In accordance with this definition, the level of certainty targeted by the reporting company should result in at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated reserves. In the case of "Probable" reserves, which are less certain to be recovered than Proved reserves, NI 51-101 states that it must be equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved plus Probable reserves. With respect to the consideration of certainty, in order to report reserves as Proved plus Probable, the reporting company must believe that there is at least a 50 percent probability that quantities actually recovered will equal or exceed the sum of the estimated Proved plus Probable reserves.

Oil and gas reserves estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Company's plans. The reserve estimates are also used in determining the Company's borrowing base for its credit facilities and may impact the same upon revisions or changes to the reserves estimates. The effect of changes in reserves on the financial results and position of the Company is described under the heading "Full Cost Accounting for Oil and Gas Activities".

ll Cost Accounting for Oil and Gas Activities

Depletion Expense

The Company uses the full cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and development are capitalized whether successful or not. The aggregate of net capitalized costs and estimated future development costs is amortized using the unit-of-production method based on estimated proved oil and gas reserves.

An increase in estimated proved oil and gas reserves would result in a corresponding reduction in depletion expense. A decrease in estimated future development costs would result in a corresponding reduction in depletion expense.

Withheld Costs

Certain costs related to unproved properties may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly and any impairment is transferred to the costs being depleted or, if the properties are located in a cost centre where there is no reserve base, the impairment is charged directly to income.

Ceiling Test

The Company is required to review the carrying value of all property, plant and equipment, including the carrying value of oil and gas assets, for potential impairment. Impairment is indicated if the carrying value of the long-lived asset or oil and gas cost centre is not recoverable from the future undiscounted cash flows from proved reserves. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset, based on proved plus probable reserves discounted at the Company's risk free rate, is charged to earnings.

The ceiling test is based on estimates of reserves, production rate, petroleum and natural gas prices, future prices and costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

[illegible]

The Company is required to provide for future removal and site restoration costs. The Company must estimate these costs, using an estimate of future timing, discount and inflation rates, in accordance with existing laws, contracts or other policies. These estimated costs are charged to income and the appropriate liability account over the expected service life of the asset. When future removal and site restoration costs cannot be reasonably determined, a contingent liability may exist. Contingent liabilities are charged to earnings when management is able to determine the amount and the likelihood of the future obligation.

[illegible]

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential

reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Goodwill

The process of accounting for the purchase of a company results in recognizing the fair value of the acquired company's assets on the balance sheet of the acquiring company. Any excess of the purchase price over fair value is recorded as goodwill. Since goodwill results from the culmination of a process that is inherently imprecise the determination of goodwill is also imprecise. In accordance with the issuance of CICA section 3062, "Goodwill and Other Intangible Assets" goodwill is not amortized but assessed periodically for impairment. The process of assessing goodwill for impairment necessarily requires Endev to determine the fair value of its assets and liabilities. Such a process involves considerable judgment.

Financial Instruments

The Company recognizes the fair value for the unrealized portion of derivative contracts at each reporting date on the financial statements. The fair value is based on an estimate of the amounts that would have been paid to or received from counterparties to settle these instruments given future market prices and other relevant factors. As the fair value is based on a number of subjective estimates such as future prices and volatility in commodity markets, estimates could differ from actual results realized.

The CICA released new standards related to financial instruments in April 2005 – *Financial Instruments – Recognition and Measurement,* Section 3855, *Hedges,* Section 3865, *Comprehensive Income,* Section 1530, *Financial Instruments – Disclosure and Presentation,* Section 3861 and *Equity,* Section 3251. These sections specify when a financial instrument or non-financial derivative is to be recognized on the balance sheet. These sections will require a financial instrument or non-financial derivative to be measured at fair value or using cost-based measures; establish how gains and losses are to be recognized and presented, including introducing comprehensive income; specify how hedge accounting should be applied; establish new disclosures about an entity's accounting for designated hedging relationships and the methods and assumptions applied in determining fair values.

Endev will adopt these new standards commencing January 1, 2007 and as at the date of the Management's Discussion and Analysis cannot reasonably estimate the full effect on our financial statements.

Stock-based Compensation

Endev uses the fair value method for valuing stock options. Under this method, as new options are granted, the fair value of these options will be expensed on a straight-line basis over the applicable vesting period, with an offsetting entry to contributed surplus. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of somewhat subjective assumptions including expected stock price volatility.

Legal, Environmental Remediation and Other Contingent Matters

The Company is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and determine that the loss can reasonably be estimated. When the loss is determined it is charged to earnings. The Company's management must continually monitor known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by circumstance.

FORWARD-LOOKING STATEMENTS

Certain information regarding Endev Energy Inc. set forth in this entire document, including management's assessment of the Company's future plans and operations contains forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Company's and management's control including, but not limited to, the impact of general economic conditions, industry conditions, fluctuation of commodity prices, fluctuation of foreign exchange rates, imperfection of reserve estimates, environmental risks, industry competition, availability of qualified personnel and management, stock market volatility, and timely and cost-effective access to sufficient capital from internal and external sources. Endev's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated to occur or transpire from the forward-looking statements will provide what, if any, benefits to Endev Energy Inc.

The consolidated financial statements are the responsibility of the management of Endev Energy Inc. (the "Company") and have been prepared in accordance with Canadian generally accepted accounting principles. Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements and other financial information presented elsewhere in this report. Estimates are sometimes necessary in the preparation of these statements because a precise determination of some assets and liabilities depends on future events. Management has based these estimates on careful judgments and believes they are properly reflected in the accompanying consolidated financial statements.

Management is also responsible for maintaining a system of internal control designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and for reviewing and approving the consolidated financial statements. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board. The Audit Committee meets periodically with management and the auditors to satisfy itself that each is properly discharging its responsibilities, to review significant accounting and reporting matters and to review the consolidated financial statements. The Audit Committee reports its findings and recommends the approval of the consolidated financial statements to the Board.

The consolidated financial statements have been audited on behalf of the shareholders by the independent auditors, KPMG LLP, in accordance with Canadian generally accepted auditing standards.

Cameron J. MacGillivray, P.Eng.
President and Chief Executive Officer

Scott T. Bonli, C.A.
Vice President, Finance and Chief Financial Officer

Calgary, Canada
March 9, 2007

To the Shareholders of Endev Energy Inc.

We have audited the consolidated balance sheets of Endev Energy Inc. as at December 31, 2006 and 2005 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
March 9, 2007

Consolidated Balance Sheets

($000s) As at December 31	2006	2005
ASSETS		
Current		
Cash and cash equivalents	$ 10	$ –
Accounts receivable	11,034	11,292
Prepaid expenses and deposits	308	145
Unrealized gain on commodity contracts *(note 8)*	312	–
	11,664	11,437
Property, plant and equipment *(note 3)*	169,476	139,456
Goodwill	7,800	7,800
	$ 188,940	$ 158,693
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness *(note 5)*	$ 51,958	$ 26,965
Accounts payable and accrued liabilities	14,140	12,662
	66,098	39,627
Asset retirement obligations *(note 4)*	8,587	7,866
Future income taxes *(note 6)*	19,345	21,088
	94,030	68,581
SHAREHOLDERS' EQUITY		
Share capital *(note 7)*	68,177	67,727
Contributed surplus *(note 7)*	3,521	1,785
Retained earnings	23,212	20,600
	94,910	90,112
	$ 188,940	$ 158,693

Commitments *(note 10)*

Subsequent events *(note 11)*

The accompanying notes are integral to these consolidated financial statements.

Signed on behalf of the Board:

John F. Driscoll, Director

William D. Robertson, F.C.A., Director

Consolidated Statements of Operations and Retained Earnings

($000s, except per share amounts) For the year ended December 31	2006	2005
Revenues		
Petroleum and natural gas	$ 61,129	$ 71,538
Royalties (net of Alberta Royalty Tax Credit)	(9,563)	(12,093)
Unrealized gain on commodity contracts *(note 8)*	312	–
	51,878	59,445
Expenses		
Operating	12,148	9,359
Transportation	1,304	1,307
General and administrative	2,931	2,525
Stock-based compensation	1,898	1,239
Interest	2,180	1,185
Depletion and depreciation	29,849	26,886
Accretion of asset retirement obligations	632	612
	50,942	43,113
Income before taxes	936	16,332
Taxes *(note 6)*		
Current	–	123
Future income (reduction)	(1,743)	4,165
	(1,743)	4,288
Net Income	2,679	12,044
Retained earnings, beginning of year	20,600	8,556
Settlement of stock options *(note 7)*	(67)	–
Retained earnings, end of year	$ 23,312	$ 20,600
Net Income per Share *(note 7)*		
Basic	$ 0.03	$ 0.14
Diluted	$ 0.03	$ 0.14

The accompanying notes are integral to these consolidated financial statements.

Consolidated Statements Of Cash Flows

($000s) For the year ended December 31	2006	2005
Cash provided by (used in)		
OPERATIONS		
Net income	$ 2,679	$ 12,044
Depletion and depreciation	29,849	26,886
Accretion of asset retirement obligations	632	612
Future income taxes (reduction)	(1,743)	4,165
Actual abandonment costs	(308)	(699)
Stock-based compensation	1,898	1,239
Unrealized gain on commodity contracts *(note 8)*	(312)	–
	32,695	44,247
Changes in non-cash working capital *(note 9)*	37	(660)
	32,732	43,587
FINANCING		
Bank indebtedness	24,993	(2,454)
Issue of common shares, net of issue costs	435	221
Settlement of stock options *(note 7)*	(214)	–
	25,214	(2,233)
INVESTING		
Property, plant and equipment additions	(59,472)	(36,324)
Acquisitions	–	(4,100)
Changes in non-cash working capital *(note 9)*	1,536	(930)
	(57,936)	(41,354)
Change in cash	10	–
Cash, beginning of year	–	–
Cash, end of year	$ 10	$ –
Interest paid	$ 2,180	$ 1,185
Taxes paid	$ 106	$ 122

Cash is defined as cash and cash equivalents.

The accompanying notes are integral to these consolidated financial statements.

1. NATURE OF OPERATIONS AND ORGANIZATION

Endev Energy Inc. is a Calgary-based company involved in the exploration, development and production of petroleum and natural gas in Alberta, Saskatchewan and Manitoba. These consolidated financial statements include the accounts of Endev Energy Inc., it's wholly owned subsidiary Endev Exploration Ltd. (formerly Moxie Exploration Ltd.) and their partnership Endev Resources Partnership, collectively referred hereinafter as "Endev" or the "Company".

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary and partnership. All inter-company transactions and balances have been eliminated.

Joint Ventures

Substantially all of the Company's operations are conducted jointly with others, and accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

Measurement Uncertainty

The amounts recorded for depletion and depreciation of oil and gas properties and equipment and the provision for accretion of asset retirement obligations are based on estimates. The ceiling test is based on estimates of reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Cash and Cash Equivalents

Cash includes cash and short-term money market instruments with a maturity of less than three months.

Oil and Gas Properties

Oil and gas properties are accounted for using the full cost method of accounting whereby all costs of acquiring, exploring and developing, and renewals and enhancements that extend the economic life of oil and gas properties are capitalized. All costs of exploring for and developing petroleum and natural gas properties and related reserves are capitalized into a cost centre. Such costs include those related to lease acquisition, geological and geophysical activities, lease rentals on non-producing properties, drilling of productive and non-productive wells, tangible production equipment, asset retirement costs, and that portion of general and administrative expenses directly attributable to exploration and development activities. Proceeds on sale or disposition of oil and gas properties are credited to the full cost pool unless this results in a change in the depletion and depreciation rate by 20 percent or more, in which case a gain or loss is recognized in the statement of operations.

i) Ceiling test

The Company follows the full cost method of accounting for oil and gas activities which requires a detailed impairment calculation at least annually or when events or circumstances indicate a potential impairment of the carrying amount of oil and gas assets may have occurred.

An impairment loss is recognized when the carrying amount of a cost centre is not recoverable and exceeds its fair value. The carrying amount is assessed to be recoverable when the sum of the undiscounted cash flows expected from proved reserves plus the cost of unproved interests, net of impairments, exceeds the carrying amount of the cost centre. When the carrying amount is assessed not to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows from proved and probable reserves plus the cost of unproved interests, net of impairments, of the cost centre The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free interest rate.

ii) Depletion and depreciation

The provision for depletion and depreciation is computed using the unit-of-production method based on the estimated gross proved oil and gas reserves, before royalties, as determined by an independent engineer. For purposes of the calculation, natural gas reserves and production are converted to equivalent volumes of petroleum based upon relative energy. Costs of significant unproved properties, net of impairments are excluded from the depletion calculation. When proved reserves are assigned to the property or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the full cost pool.

Depreciation of office equipment and furniture is provided for at 20 percent per annum.

Asset Retirement Obligations

The Company uses the asset retirement obligation method of recording the future cost associated with removal, site restoration and asset retirement costs. The fair value of the liability for the Company's asset retirement obligation is recorded in the period in which it is incurred, discounted to its present value using the Company's credit adjusted risk-free interest rate and the corresponding amount is recognized by increasing the carrying amount of oil and gas properties. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period.

Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

Goodwill

Goodwill is recorded in a corporate acquisition where the total purchase price exceeds the net identifiable assets and liabilities of the acquired company. The goodwill balance is not amortized but is assessed for impairment annually in the fourth quarter, or when indications of impairment are present. Where fair value of the consolidated entity is less than the book value of the consolidated entity, a loss would be charged to income for the amount that the carrying amount of the goodwill exceeds its fair value.

Derivative Financial Instruments

The Company uses various types of derivative financial instruments to manage risk associated with crude oil and natural gas price fluctuations. These instruments are not used for trading or speculative purposes. Proceeds and costs realized from holding the related contracts are recognized in the statement of operations at the time that each transaction under a contract is settled. For the unrealized portion of such contracts, the Company utilizes the fair value method of accounting. The fair value is based on an estimate of the amounts that would have been paid to or received from counterparties to settle these instruments given future market prices and other relevant factors. The method requires the fair value of the derivative financial instruments to be recorded at each balance sheet date.

Future Income Taxes

The Company follows the liability method of accounting for future income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using substantively enacted income tax rates. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period that the change occurs. Temporary differences arising on acquisitions result in future income tax assets and liabilities.

Per Share Information

Basic net income per share is computed by dividing net income by the weighted average number of shares outstanding during the period. The weighted average number of shares is adjusted for the dilutive effect of options. The dilutive effect of options uses proceeds received on exercise of options to purchase common shares at the average price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

Stock-based Compensation Plan

The Company has a stock-based compensation plan as described in note 7. The Company uses the fair value method for valuing stock options. Under this method, compensation cost attributed to all stock options is measured at fair value at the grant date and charged to income over the vesting period with a corresponding increase in contributed surplus. Consideration paid on exercise of options is credited to share capital together with the amount previously recognized in contributed surplus.

Revenue Recognition

Petroleum and natural gas revenues are recognized when the title and risks pass to the purchaser. Revenue has been presented prior to transportation costs and a separate expense for transportation costs has been presented in the consolidated statements of operations and retained earnings.

3. PROPERTY, PLANT AND EQUIPMENT

	2006	2005
Oil and gas properties	$ 268,794	$ 209,141
Other assets	568	352
	269,362	209,493
Accumulated depletion and depreciation	(99,886)	(70,037)
Net book value	$ 169,476	$ 139,456

During the year ended December 31, 2006, the Company capitalized $1.2 million (2005 – $0.9 million) of general and administrative expenses related to exploration and development activities. As at December 31, 2006, the depletion calculation excluded unproved properties of $6.2 million (2005 – $5.4 million) and included future development costs of proved reserves of $9.5 million (2005 – $19.3 million).

On March 4, 2005, Endev completed a property acquisition in the Majorville area of Alberta for a total purchase price of $1.4 million. The purchase was effective February 1, 2005 and operating results were included in the accounts of the Company from March 4, 2005.

On November 23, 2005, Endev completed a property acquisition in the Majorville area of Alberta for a total purchase price of $2.7 million. The purchase was effective August 1, 2005 and operating results were included in the accounts of the Company from November 23, 2005.

The Company has performed the ceiling test as of December 31, 2006. The impairment test was calculated using forecast prices as outlined in the following table and adjusted for commodity differentials specific to the Company:

	Crude Oil			Natural Gas	Natural Gas		
Year	WTI $US/bbl	Edmonton Par $Cdn/bbl	Bow River Hardisty $Cdn/bbl	Alberta AECO Spot $/mmbtu	Liquids Pentanes + $/bbl	Inflation Rates %/year	Exchange Rate $US/$Cdn
2007	62.00	70.25	49.00	7.20	71.75	2.0	0.870
2008	60.00	68.00	49.00	7.45	69.25	2.0	0.870
2009	58.00	65.75	48.75	7.75	67.00	2.0	0.870
2010	57.00	64.50	48.25	7.80	65.75	2.0	0.870
2011	57.00	64.50	49.00	7.85	65.75	2.0	0.870
2012	57.50	65.00	49.50	8.15	66.25	2.0	0.870
2013	58.50	66.25	50.25	8.30	67.50	2.0	0.870
2014	59.75	67.75	51.50	8.50	69.00	2.0	0.870
2015	61.00	69.00	52.50	8.70	70.50	2.0	0.870
2016	62.25	70.50	53.50	8.90	72.00	2.0	0.870
2017	63.50	71.75	54.50	9.10	73.25	2.0	0.870
2018+	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	2.0	0.870

4. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. As at December 31, 2006, the Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is approximately $28.0 million which will be incurred from 2007 to 2030. The majority of the costs will be incurred between 2012 and 2030. A credit-adjusted risk-free rate of eight percent was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	2006	2005
Balance, beginning of year	$ 7,866	$ 7,517
Accretion expense	632	612
Revisions to estimates	(351)	–
Obligations incurred	748	436
Actual abandonment cost	(308)	(699)
Balance, end of year	$ 8,587	$ 7,866

5. BANK INDEBTEDNESS

As at December 31, 2006, the Company has a revolving demand credit facility with a maximum availability of $60 million. The interest rate at December 31, 2006 was prime plus 0.25 percent (6.25 percent) and subject to quarterly adjustment from time to time based on certain debt to cash flow ratios. The limit of the credit facility is subject to adjustments from time to time to reflect changes in Endev's asset base. There are no principal repayments required on the loan. The credit facility is secured by a $75.0 million fixed and floating charge over all the assets of the Company. The credit facility is reviewed periodically by the bank with the next review scheduled on or before May 1, 2007.

6. INCOME TAXES

The provision for income taxes differs from the result which would be obtained by applying the combined federal and provincial statutory tax rates to income before income taxes. This difference results from the following:

	2006	2005
Income before income tax provision	$ 936	$ 16,332
Statutory rates	34.81%	37.62%
Income tax provision computed at statutory rates	$ 326	$ 6,144
Effect on income tax of:		
Non-deductible crown charges	1,235	1,470
Resource allowance	(839)	(2,934)
Impact of future income tax rate reductions	(2,800)	(824)
Other non-deductibles	335	432
Income tax expense (reduction)	$ (1,743)	$ 4,288

The oil and gas properties owned by the Company have a tax basis of approximately $108.3 million (2005 – $102.0 million) available for future use as deductions from taxable income. Included in this tax basis are non-capital loss carry forwards of $9.4 million (2005 – $23.4 million) which expire over the next ten years.

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Company's future income tax assets and liabilities are as follows:

	2006	2005
Net book value of capital assets in excess of tax pools	$ 18,120	$ 21,197
Asset retirement obligations	(2,503)	(2,684)
Non-capital losses	(3,561)	(8,012)
Partnership income	7,289	10,587
Future income tax liability	$ 19,345	$ 21,088

7. SHARE CAPITAL

The authorized share capital of the Company consists of an unlimited number of common shares without nominal or par value.

Issued and outstanding	Common shares	Amount
Balance, December 31, 2004	87,802,554	$ 67,425
Options exercised	256,669	221
Contributed surplus associated with options exercised	–	81
Balance, December 31, 2005	88,059,223	$ 67,727
Options exercised	843,334	435
Contributed surplus associated with options exercised	–	15
Balance, December 31, 2006	**88,902,557**	**$ 68,177**

The weighted average number of shares outstanding is as follows:

	2006	2005
Basic	**88,645,870**	87,987,180
Diluted	**89,636,228**	89,560,565

For the year ended December 31, 2006, an average of 4,132,900 (2005 – 923,750) options were not included in the diluted earnings per share calculation because they were antidilutive.

The Company has a stock option plan where the Company may grant options to its directors, officers, employees and consultants, for up to 10 percent of the issued common stock. The exercise price of each stock option equals the average market price of the Company's stock for the five trading days prior to the date of the grant. The following table summarizes information about the stock option transactions for the period.

	2006		2005	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of year	**4,991,500**	**$ 1.08**	3,771,500	$ 0.89
Granted	**3,419,600**	**1.47**	1,870,000	1.50
Exercised	**(843,334)**	**0.52**	(256,669)	0.86
Settled and cancelled	**(400,000)**	**0.98**	–	–
Cancelled or expired	**(438,666)**	**1.65**	(393,331)	1.45
Stock options outstanding, end of year	**6,729,100**	**$ 1.32**	4,991,500	$ 1.08
Exercisable, end of year	**3,799,032**	**$ 1.23**	3,001,503	$ 0.90

Range of Exercise Prices	Options Outstanding Number Outstanding	Weighted Average Exercise Price	Weighted Remaining Contractual Life (years)	Options Exercisable Number Exercisable	Weighted Average Exercise Price
$0.50 - $0.90	811,500	$ 0.66	1.2	811,500	$ 0.66
$1.05 - $1.30	3,148,600	1.16	5.5	1,696,199	1.15
$1.32 - $1.74	2,184,000	1.63	4.0	941,333	1.61
$1.77 - $2.10	585,000	1.90	3.8	350,000	1.88
	6,729,100	**$ 1.32**	**4.4**	**3,799,032**	**$ 1.23**

All options granted vest as to one-third upon date of grant and one-third on each of the first two anniversaries and expire five years after the grant date, except for 1,000,000 options granted on December 17, 2004 which expire ten years after the grant date, 500,000 of which vest on the stock reaching certain target prices.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

Assumptions	2006	2005
Risk free interest rate *(%)*	**5.71**	4.10
Expected life *(years)*	**5**	5
Expected volatility *(%)*	**47**	57
Weighted average fair value of each option granted *($)*	**0.71**	0.79
Dividend yield *(%)*	**–**	–

The Company has not incorporated an estimated forfeiture rate for stock options that will not vest, rather, the Company accounts for actual forfeitures as they occur.

Contributed Surplus

	2006	2005
Balance, beginning of year	**$ 1,785**	$ 627
Stock-based compensation expense	**1,898**	1,239
Cash settlement of stock options	**(147)**	–
Options exercised	**(15)**	(81)
Balance, end of year	**$ 3,521**	$ 1,785

In July 2006, the Company settled and cancelled an aggregate of 400,000 outstanding vested stock options with a weighted average exercise price of $0.975 with a former employee. The former employee was paid $214,000 with respect to this settlement. The excess of the cash settlement over the grant date fair value of the options has been charged to retained earnings.

8. FINANCIAL INSTRUMENTS

(i) Fair value of financial instruments:

The Company's financial instruments consist of accounts receivable, commodity price contracts and accounts payable and accrued liabilities. As at December 31, 2006 and 2005, the carrying value of these financial instruments approximated their fair value due to their short-term nature. The Company's bank indebtedness bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

(ii) Foreign currency exchange risk:

The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices are referenced in U.S. dollar denominated prices.

(iii) Credit risk:

Virtually all of the Company's accounts receivable are with customers involved in the oil and gas industry and are subject to normal industry credit risks. The carrying value of accounts receivable reflects management's best estimate of the credit risk associated with the Company's counterparties.

(iv) Interest rate risk:

The Company is exposed to interest rate risk to the extent that bank debt is at a floating rate of interest.

(v) Commodity price contracts:

As at December 31, 2006 the Company has the following natural gas contracts:

Product	Volume	Period	Contract	Price
Natural gas	2000 GJ per day	April to October 2007	Costless Collar	Floor $6.67/GJ Ceiling $7.54/GJ
Natural gas	1000 GJ per day	April to October 2007	Costless Collar	Floor $6.67/GJ Ceiling $8.15/GJ

During the year ended December 31, 2006 there were no settlement payments. The Company would have received $0.3 million if the contract had settled on December 31, 2006.

9. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	2006	2005
Accounts receivable	**$ 258**	$ (3,907)
Prepaid expenses and deposits	**(163)**	81
Accounts payable and accrued liabilities	**1,478**	2,236
Change in non-cash working capital	**$ 1,573**	$ (1,590)
Relating to:		
Operating activities	**$ 37**	$ (660)
Investing activities	**$ 1,536**	$ (930)

10. COMMITMENTS

The Company is committed to a lease agreement for office premises to March 31, 2012. The rentals payable including estimated operating costs are summarized in the following table:

2007	$ 470
2008	551
2009	556
2010	562
2011	569
2012	144
Total	$ 2,852

11. SUBSEQUENT EVENTS

Subsequent to December 31, 2006 the Company entered into additional natural gas contracts as follows:

Product	Volume	Period	Contract	Price
Natural gas	1000 GJ per day	April to October 2007	Costless Collar	Floor $6.00/GJ Ceiling $7.00/GJ
Natural gas	1000 GJ per day	April to October 2007	Costless Collar	Floor $6.25/GJ Ceiling $7.33/GJ
Natural gas	1000 GJ per day	April to October 2007	Costless Collar	Floor $6.50/GJ Ceiling $7.72/GJ

12. COMPARATIVE FINANCIAL STATEMENTS

Certain prior year's comparative figures have been restated to conform to the current year's presentation.

Corporate Information

OFFICERS

Cameron J. MacGillivray
President and Chief Executive Officer

Scott T. Bonli
Vice President, Finance and Chief Financial Officer

Noel F. Cronin
Vice President, Operations and Engineering

Vincent C. Fera
Vice President, Exploration

Terry D. Johnson
Vice President, Land

DIRECTORS

John F. Driscoll
Chairman and Chief Executive Officer,
Sentry Select Capital Corp.

John A. Brussa
Partner,
Burnet, Duckworth & Palmer LLP

Jeffery E. Errico
Executive Chairman,
Insignia Energy Inc.

Cameron J. MacGillivray
President and Chief Executive Officer,
Endev Energy Inc.

William D. Robertson
Independent Businessman

Richard J. Zarzeczny
Principal,
Canadian Enerdata Limited

AUDITORS

KPMG LLP
Calgary, Alberta

SOLICITORS

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

BANKERS

National Bank of Canada
Calgary, Alberta

INDEPENDENT RESERVES EVALUATOR

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Valiant Trust Company
Calgary, Alberta

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbol: ENE

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